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The optimization of success rates in M&A processes with regard to the target search process

A Model based approach on implication of defined success factors from post-merger analysis

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ABSTRACT

In the vibrant environment of merger and acquisition [M&A] processes, failure rates are still considered to be extremely high. There is a vast amount of previous research, but it has mainly focused on merger or post-merger analysis, and is often limited to single success factors and their influence on overall performance outcomes. Limited insight on comprehensive interrelations between pre-and post-merger stages is available. This thesis provides a detailed investigation of the pre-merger stage, the complex interrelations with success factors examined in post-merger analysis, and an approach for including these factors in the target search. Several studies have been examined, success factors were defined and then tested on their individual utility for the target-search processes. Performing an M&A process is an interrelated, multistage endeavor and therefore a comprehensive approach is advisable. To gain insights from practical implementation, experts from M&A departments and consultancies were interviewed. The results include interfaces that require further investigation in the future, including potentials for optimization. A framework-model for supporting companies during the critical process of target-screening, developed through the reverse-engineering the success factor shown in research and the insights from experts, is suggested to optimize success rates in M&A.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

Failure rates of merger and acquisition processes are considered to be somewhere between 70% and 90% (Christensen, Alton, Rising et al. 2011). Nevertheless, it is a vibrant environment with ever-increasing absolute numbers. According to Bloomberg data, 2015 was a record-breaking year in terms of M&A-spending with $4.9 trillion compared to the previous record set in 2007 with $4.3 trillion (multinational companies). The numbers of merger transactions between small and midsized companies are also growing. Fast-paced globalization and constantly developing technology, make companies face new challenges on a global scale and have certainly contributed to these increasing acquisition numbers. The chosen area of research in this thesis is embedded into the broad field of merger and acquisition literature with focus on value creation within the early stages of this process, namely the pre-merger phase and particularly the target-search procedure. The vast existing amount of research regarding M&A topics is still continuing to grow, not least due to the fact that failure rates have not decreased in recent years. However, the available literature mostly depends on merger or post-merger analysis, in which researchers and consultants often focus on single success factors and their positive or negative influence on performance. Preliminary findings concentrate mostly on performance factors sourcing out of a post-merger research approach. The pre-merger process and its success factors tend to a large part to be ignored, and particularly empirical results from coherencies between interrelations of pre-and post-merger stages, have met with the least amount of investigation. Existent knowledge of other research streams, e.g. integration and implementation issues, are often neglected when describing one particular factor of interest. This implies that considerations are not encompassing and therefore hardly to validate on a comprehensive scale. It can be said that there is a lack of information-

implementation from academic research, into an action framework. Closing this gap will support companies in their strategic decision-making for the best fitting target, already within the very early phase in this process. In this thesis, the insights of post-merger analyses will be implemented into the pre-merger process, especially the target-search process.

The high failure rate of M&A's certainly can be explained in large parts by bad decisions by the executive management. It can be said that most acquisitions fail due to the fact that management has chosen wrong strategic partners and failed during the integration process. The actual buying procedure is the least difficult part. The strategic planning, an active approach, the right assumptions about synergy potentials are crucial factors for success from a theoretical perspective. Additionally considerable are cultural and organizational differences, market opportunities as well as post-merger integration topics, and the integration of these into the pre-merger target-search, which is crucial for success. These decisions, made by management, are seldom based on adequate results of the pre-merger target-search process and usually emerge from randomly-occurring, opportunistic chances for the firms. These opportunities are rarely investigated by adequate research and even less is known about the complex interrelations which companies face with approaching a sophisticated endeavor like an M&A process. To what extent do companies plan these processes? How do they integrate M&A strategy in their company strategy? On which criteria based, do they select the targets? Are there potential ways to improve this approach by means of empirical research? And where are interrelationships between the target-screening in a certain market and the post-merger integration topics? These are questions to investigate, within this thesis. The findings are build the theoretical principles from which a model for a superior target-search process is built. It promotes the objective screening process based on criteria from the research undertaken.

The single stages are interconnected within the comprehensive process, including links between pre-and post-merger phase; it is therefore crucial to both understand the process in its entirety, and also to observe the individual phases and their spillovers to previous and successive stages of the process. Deficiencies and probable potentials during the early stages are not yet properly researched and the positive effects of a well-planned strategic approach on overall success rates of M&A processes has been neglected in previous investigations. Instead of fragmenting the whole process into its individual stages, the value lies in integrating the company's strategy, goals and empirical evidence from post-merger analysis into the target-search process to enhance proper decisions for sustainable external growth. A particular point of interest is the chance to avoid rising costs due to integration problems in the post-merger phase by planning appropriately in advance.

The purpose of this study is a further investigation into interrelations between critical success factors from the post-merger and pre-merger phases, to build a theoretical framework on existing literature and qualitative research and to outline additional links to promote further investigations of these interrelated key topics. As the study is based on relatively rare information to this subject the approach is inductive and interpretative from qualitative sources. This thesis is separated into three major parts. The first part of the thesis is an overview of the expression M&A process, including definitions, and classifications. Followed by a literature research on optimization strategies and sources of value creation that have been identified through post-M&A performance studies undertaken so far. Motives, and means of value creation from performance studies are are examined in this part. Afterwards it gives an overview of the M&A pre-merger process and its characteristics. In this part provided secondary data, was collected from databases, literature, and studies and illuminates the topic from a literature based view.

The second part deals with the empirical data collection. The carried out method is

introduced in chapter 5. It includes primary data, collected from semi-structured, qualitative interviews with both, experienced managers of companies that have made acquisitions projects for their companies in the past and consultants from consultancies who assist companies in their acquisition projects. To consolidate more information a short survey was created, answered from managers with experience. The following chapter contains answers from the interviews and the survey on specific topics of interest.

Based on this answers plus the literature review on success factors, the third part, an in-depth analysis with particular suggestions for optimization potentials in the M&A process is made. Hence, the final section creates the connection between pre-and post-merger stages; from theoretical and practical insight and leads to the setup of a new comprehensive model for an improved target search process. Finalized, is this thesis by a short discussion on the researched topic and a conclusion.

As shown in this thesis, M&A transactions are interdisciplinary, multilevel procedures, and therefore it is necessary to apply the process from an interconnected point of view instead of the static, single-success factor approach, as has been previously done.

The findings of this study should promote researchers to further investigate interrelations within the M&A process and to deal with the process as a complex whole instead of separating it into single steps in order to identify optimized process solutions.

2. M&A OVERVIEW

2.1 Definition

M&A or ‘mergers and acquisitions’, describe two different perspectives of independence. A merger generally refers to the term “merging between equals” an acquisition instead defines a combination of two companies, in which the management of the acquiring company controls the acquired company. However, even though a merger was declared, it is observable, that one company controls the other after some time (Weber et al. 2013). An acquisition, or also described as takeover can be distinguished into statuary transactions, in which the acquiring company assumes the assets and liabilities of the target and into subsidiary transactions, in which the target is becomes a subsidiary. Both, ’merger and acquisitions’ differ from a consolidation. A consolidation of two or more companies result in an entirely new company. (Gaughan, 2007)

The expression M&A as used throughout this work does not differentiate between merger and acquisition as described above there is no sharp distinction between both concepts. Hence, it is generally used, for the combination of two companies to one legal entity.

2.2 M&A categorization

Besides the general definition of M&A transactions referring to the legal status, mergers can also be distinguished into other classifications. Within this clusters, the individual transactions vary with regard to criteria such as interest claims, risk profile and its management cooperation structures. It has been proven from empirical evidence in research that some of these mergers are superior compared to other transactions (see chapter 3) and hence, they represent success criteria for M&A transaction. Research provides many different transaction-classifications from which some are based on:

2.2.1 Relatedness:

Transactions can be classified into horizontal, vertical, and conglomerate mergers. Horizontal and vertical mergers are considered as related diversifications, on the contrary unrelated diversifications which also involve conglomerate mergers, describe transactions that implies entering an industry, different to their own business model (Weber et al. (a), 2013, p. 42). Horizontal acquisition, "buying the competition," is an acquisition involving companies in the same industry. Potential synergies are created in order to take advantage of economies of scale, less competition in the market and complementary resources within the market. Vertical mergers, on the contrary, stand for "supply chain integration." The acquisition takes place within different stages of the production process, motivated by efficiency considerations and lower costs (Lipczynski, Wilson & Goddard, 2005, pp. 258). It can be differentiated between upward and downward integration and is defined by a buyer-seller relationship. Lastly, conglomerate mergers stand mainly for diversification objectives. Companies merge between different industries providing different products in order to take advantage of possible synergies through diversification and long-term growth orientation (Gaughan, 2007, pp. 13, 145). Horizontal mergers, in a narrow sense, support consolidation of markets, have a direct impact on market shares for a company, and are a viable strategy to increase market control. Vertical and conglomerate transactions do not have a direct impact on market consolidation and therefore do not necessarily increase market power in the mature industry of the company. However, vertical transactions are often undertaken in order to gain power on certain parts of a company's value chain. Conglomerate mergers were quite popular during the third M&A wave, which took place between the years 1965-1969 and was also known as the conglomerate merger period. After some time the wave exhausted

itself it became clear, that synergies often were not to the extent realizable as expected before and many merger failed (Gaughan, 2007, pp. 40).

2.2.2 Cooperation of Management:

Another classification of mergers refers to the cooperation of management within different types of acquisitions. These can emerge under hostile or friendly conditions (Gaughan, 2007, pp. 19). In the former case, the acquirer and the target company do not agree on the acquisition, and shares are purchased by the acquirer, without agreement from the targets management, on financial markets. Often in hostile takeovers, the target company executes certain defense strategies which can sharply drive up prices for the acquirer and often destroy value for both, target and acquiring company. In friendly acquisitions, both parties' management communicate and negotiate beforehand and agree to an acquisition endeavor (Boone, Mulherin 2009, pp.28-30).

2.2.3 Geographic:

Mergers can be classified by the geographical regions in which they take place. Domestic transactions are acquisitions in which both, the headquarters of the target and of the acquiring company are situated in the same country. Consequently, both firms are under the same legal framework and cultural issues generally are less important. However, topics such as organizational differences can be severe, also when both companies are situated within the same country. On the other hand, cross-border M&A describes transactions in which the target company's headquarters are located in another country. In this case, different legal and taxation frameworks as well as cultural, political, and economic differences between the countries can have severe implications for the transaction process. (Gaughan 2007; Boone, Mulherin 2007).

3. VALUE FROM POST-M&A PERFORMANCE STRATEGIES

3.1 Merger motives

Reasons for M&A are widespread and diverse. Varied interests are observable within different industries and organizational forms. E.g. differences in shareholder structures between private and public firms request different handling of growth strategies, due to empowerment of different stakeholder groups. Respectively, companies in technology affine industries versus mature growth industries such as consumption goods, operate within different environments, therefore the industry's specific features drives varying motives for M&A transactions. Recently undertaken research, e.g. Trompenaars & Asser (2010) point out, M&A trends, are based on political and regulatory reasons as a consequence of an increasingly globalized world. Today most globalized multinational companies implement an M&A-strategy in their overall business strategy to manage market risks and exploit outside growth in the same time. The literature provides different approaches to ratify motives. Angwin (2007) separates motives into three dimensions: classical internal exploitation-driven motives, externally-driven motives and motives depending on irrational behavior from the management. Mukherjee, Kiymaz and Baker (2004) depict diversification on the one hand and increasing synergies in terms of economies of scale/economies of scope on the other hand, for nearly 2/3 of all merger motives after conducting a survey with chief financial officers (CFO's) from the US. Mulherin and Boone (2009) furthermore mentioned, that especially exploiting synergy-driven mergers can have positive effects on value creation, when those synergies can be effectively utilized. Overall, the most-named reasons for the engagement of merger & acquisitions transactions in literature are exploitative growth motives in terms of market positioning or entrance into new strategical markets, and motives which support cutting costs (operational) or decreased costs of capital (financial) advantages, resulting from synergies

made with the merging partner. Synergies in this context are defined as the surplus value made out of the combination of two individual corporations. More precisely, the total value of the merger is more than the sum value of its individual parts. Gaughan (2007, p.117) argues that companies seeking opportunities to expand, face the trade-off decision between organic growth and external growth, also known as “Make or Buy” decision. An organic or internal growth strategy generally takes more time. Underlying risk is the permanent uncertainty about long-term market growth development. Conclusions drawn from assumptions about future environments can found to be false and the company suffers from choosing the wrong focus points of market development. M&A transactions are generally more rapid processes, and for this reason, it is often considered as an instrument for cutting corners and pushing management objectives forward more quickly compared with the slow-moving organic growth. Nevertheless, M&A transactions include their own risks and uncertainties and it is imperative to set up beforehand comprehensive planning and analyzing processes in order to ensure a successful execution and to generate sustainable growth for the company’s stakeholders (Gaughan, 2007).

As explained, motives for merger transactions have mostly underlying strategic considerations. Roll (1986), on the other hand, investigated the so called “hubris hypothesis” as another important explanation of corporate takeovers. In this scenario, the overconfidence of executives in the management and their subjective evaluation of a target, makes them pay a premium for the target which is well above the fair value of actual synergies that could be achieved. This non-rational striving for power-incentives still counts for a large share of transactions and therefore should not be underestimated (Gösche, 2013). In most cases, there is not only one specific motive for a transaction but several incentives which firms follow throughout the procedure.

3.2 Merger failure and success

Merger failure happens, when previous defined objectives are not realized through the merger project. Most common is the evaluation of financial numbers in order to measure the success. E.g. the merger did not pursue its expected synergies and as a result did not meet the key figures of lower costs or higher profits. Underlying reasons why a merger failed often have qualitative impacts like mismatch between cultures or merging organizations, human resource issues etc. Knowledge about those underlying reasons can help avoid repeating the same mistakes and prevent falling into traps through forward-oriented planning from the beginning (Weber et al. 2013). An empirical study conducted by McKinsey 2012 with data of 15,000 M&A found that most company acquisitions in fast-growing industries underperform compared to their peer groups in more mature industries. As explained by Hazelkorn, Zenner & Shivdasani (2004), the higher failure rates in fast-growing sector M&A results from diversification motives or poorly-defined synergy opportunities as consequence of the overheated industry environment and the trend towards large transactions during times when target valuation is generally higher than in low-growth industries. Therefore, the premium paid for targets is higher on average, the synergy potential is overestimated, and value is destroyed for stakeholder of the acquiring firm. To realize expected synergies post-merger, an accurate evaluation of the potential synergies must take place during the pre-merger planning. Görsche (1991) points on the existence of a huge gap between excessive synergy expectations and reality. This difference can manifest in various ways, including smaller revenues or higher costs than expected. And it is not only financial numbers that can suffer from this reality check: quality issues or technology problems can also occur. Weber (2013) mentions a second reason for suboptimal merger projects, which then result in failure in form of personnel incompetence, particularly from the executive management of the new emerging

company. If organizational fit between management of acquirer and target does not exist at a certain level, the departure of managers with relevant knowledge is often a critical factor that disables synergy exploitation. With this crucial knowledge of new technology, etc. leaving the company, the acquisition is worth less than what was initially paid for it, and consequently value is destroyed instead of created. The underlying reasons for this lack of realized synergies was examined by the Boston Consulting Group in 2015. They identified factors for failures from three different categories which are most often cited by interviewed management executives and related them to pre- and post-merger phase without overlaps between those factors.

These three categories and its subtypes are as follows:

1) *Poor deal preparation and execution*
   - wrong candidate chosen
   - unclear strategic fit
   - overpaying
   - process structure
2) *Inadequate PMI*
   - integration
   - complexity
   - cultural fit
   - low synergies
3) *Bad market timing*

The sub-items of the category “poor deal preparation and execution” listed above are naturally embedded within the pre-merger target-search. Observable is the stringent separation of factors in pre and post-merger stages without considered interrelations. However, arising post-merger issues can also be solved through an appropriate forward-oriented planning structure in the beginning of the endeavor. Quantification and measurements that support the acquirer company in

finding the target with the highest strategic and operational fit including post-merger-integration issues can help to avoid later in the process occurring problems (e.g. leadership/ management incompetence or cultural fit). Reducing manageable risk reduces the overall risk, including macroeconomic challenges like bad market timing that can be targeted through in-depth analysis of the industry but can never be erased completely. Of course bad market timing can be underlying reason for a failure as well. Especially in fast-paced industries with technological changes, it is easily possible to focus on the "wrong technology" which may be not raise in importance for customers. Or in times of relatively high uncertainty, a demand shock, economic crisis or other macroeconomic changes can lead to bad market timing for companies, which undertook a merger project (Roediger, 2011, Weber et al. 2013).

3.3 Value creation evaluation

The overall objective for a company conducting a merger lies in value creation for the company. The decision to take over is one of the most important management decisions for making sustainable investments and gaining value for the shareholders. An M&A transaction can have three possible outcomes, as measured from the view of the acquirer's shareholder: value conservation, value creation and value destruction. The objective measurement of the assets from the new emerging company after the merger took place can be difficult. The adequate evaluation of the new assets and the occurring risks from the merger is hardly generalizable (Lipczynski, Wilson & Goddard, 2005, p. 322). Nevertheless, overall the general condition for value creation, which is required by the management before a merger is a positive Net Present Value (NPV) for the planned investment which must at least be fulfilled in order to go ahead. Positive NPV occurs when the return on investment exceeds the returns required and there is therefore a creation of

wealth for the shareholder (Bruner, 2001, pp. 2-3). Differences of the actual realization time are industry specific and depending also on the type of acquired assets. The question of why a combination of two firms should be a value increasing project at all is answered by two main types of studies.

Measurements of value creation based on the strategic management approach are varied, and encompass things like sales numbers, market share development, profitability improvement, or capabilities which ensure an advantage towards competitors. These factors influence the strategical fit between merging companies (Weber, (a) 2013, p. 7). The value of a merger is supposed to be more than its single parts, resulting from synergies which can be utilized within the transaction and measured in financial performance afterwards. A simple equation shows the value of a merger:

$$V_M > V_A + V_B$$

To show the precise value of the transaction, the equation is extended by ΔV_M which is the difference between the merged company and its two single parts:

$$\Delta V_M = V_M - (V_A + V_B)$$

The synergy value approach explained above can be distinguished into three types of different value creation sources: (1) Higher Revenues, which can be realized through the merger of both companies, (2) Lower Expenses through cost-advantages from combining two firms, and/or (3) Cost of Capital, meaning the advantages from combining both firms that result in lower costs of capital for the combined company. Generally, the measure of value creation in mergers is not an exact science. First, the evaluation of target and bidder subjective to a certain extent, and secondly, most analysts use short-term investor reactions and are not designed to display long-term value creation (Mendenhall, 2005, p.19).

A second approach to measuring the profitability that results from transactions is shown by the event study approach. This method examines value creation through changes in stock rates -so called abnormal returns -on different stages in the transaction event window (Rehm, Uhlaner & West, 2012, p.1). The event study method describes the transaction a successful when it results in higher returns with the merger than it would have had without it at certain points on the transaction timeline.

$R_{i,t} > K_{i,t}$, with R being the actual return on security i in time t, conditionally linked to the merger event and K being the "normal" return, which is anticipated to occur in case of no merger transaction and its modelled outcomes for expected returns without any exceptional events (Kothari,Warner 2007, p8.). Again, reordering the equation for the difference between expected return after a transaction and expected return without the merger results in value $e_{i,t}$, which describes the value created through the merger of security i in time t:

$$R_{i,t} - K_{i,t} = e_{i,t}$$

$E_{i,t}$ defines the "abnormal" or unexpected share of a firms' value. The unexpected return can be used as a measurement of value creation directly depending on the event of the merger transaction. In this model, the overall value of an M&A transaction can be measured from financial and performance measures for the individual company. The underlying assumption in this model is that the stock value change displays the actual company value change based on perfect information allocation (Weber, (a) 2013, p.5), but those value creation measures rely completely on market reactions which can be a significant drawback in times of volatile market movements, due to the danger of over-or undervaluation of companies.

These two main strands allows us to conduct an objective evaluation and comparison of the intrinsic qualities of the merger. On the contrary only big listed companies with a stock market

price. For small and midsized companies this often does not exist in the same extent. In this case another method to measuring performance factors is a survey of executives from which we can extract insights from a sample which can be compressed and generalized to a certain point. This allows also performance studies for small and midsized companies and enlarges the confidence to have meaningful results in measuring the profitability of M&A processes. Limitations in this approach could be the subjective assessment approach from executives for their merger performance in case that they do not have internal measurement methods to track the value creation from the transaction. Researchers mostly neglect survey results and pay them less attention due to the fact, that the ability to replicate the study and its results are quite limited. Nevertheless, the statements made in this surveys are based on first-hand information and do not rely on information allocation in capital markets, which often are proofed to be wrong particular in times of market uncertainties.

Gomes et al. (2013) supports another approach to creating and measuring value from a merger or acquisition transaction. He argues that any M&A endeavor is a "multilevel, multidisciplinary, and multistage phenomenon. It requires a more pluralist approach… "(Gomes, Angwin, Weber et al. 2013, p.14). In his opinion value creation is not only to be measured in numbers, but also needs to take diversified single measures on different levels and their complex interactions between those individual stages during the process into account. Creating value in an M&A transaction is quite complex and depends on many elements and interrelationships. These elements generate the overall transaction value if efficiently combined within the overall process, and can than result in sustainable long-term value creation (Mendenhall, 2005, p.43). With this more comprehensive approach, researchers also have the problem of extracting valid insight from

measurements and methods because a more pluralistic and multilevel approach requires more individual inputs and makes a comparison hardly possible or replicable.

3.3.1 Price & Value – a difference

The purchase price for a target company and its actual value can vary to a high degree. The precise evaluation of the target company is therefore important to reach an optimized target price and to avoid paying a premium that is above synergy-realization value from the acquisition. A company's' value depends on its tangible and intangible assets. The evaluation of assets may differ, depending on the individual gains an acquiring company expects to realize when integrating them. Whereas the adequate evaluation of intangible assets are often depending on the experience the acquiring company already achieved in this industry (Interview with expert E). Mendenhall (2005, p.20) appoints inter alia: perceived synergies, emotions, market conditions and hubris as factors influencing the price for a target company. He presents four possible scenarios referring to the negotiated premiums and points out that the acquiring company only will benefit from the transaction, if the premium negotiated, is lower than expected present value of the new emerging company or its stand-alone value. On the other hand if the premium for the company is above the present value of the merged company or just equal, the acquiring company will either suffer or has no gains from the transaction. This has two direct impacts. First, for the acquiring company it is from utmost importance to evaluate the target it wants to buy adequately to negotiate the right price based on this value. In an environment in which M&A has become common in strategic decisions there may occur many bidder for one company. Second, a higher level of possible value creation strengths the acquirer's negotiation position and increases the probability to realize positive returns. This means, that the value sources depending on the deal have to be clarified.

3.4 Value creation sources

This part is based on the existing knowledge of value creation sources realized from the merger transaction. The individual value drivers are associated with different merger strategies and industries. This section investigates the existing knowledge base in order to distinguish value creation sources and identify the most important drivers for success of a transaction. Many existing studies have investigated sources from a vast number of diverse environments. Value creation throughout a merger is explained mostly with focus on one single factor, which is tested on the potential of its value creation in a merger transaction. The results from empiric research often are ambiguous in terms of their reflection of the value adding impacts on transactions.

The overall value creation considerations were split into two subparts. The first one considers the value creation from synergies within the company, describing synergies such as strategical fit and its cost-cutting advantages for merging companies, as well as organizational factors from the strategical business view—the ‘inside’ view. The other side, the ‘outside’ view, reflects empirical evidence from studies on post-merger analysis, such as value creation from transactions between two companies of different sizes, industries with higher or less cultural proximity and varieties of value creation in horizontal and vertical mergers. Numerous empirical research studies suggest that there is a perception that transactional characteristics influence the performance outcome. Most analyses until today have reviewed single factors of value creation either from the pre-merger or the post-merger process but not the connections between them. Factors with the highest identified impacts on positive value creation, evaluated based on the literature overview is introduced into the target search process criteria and become an integral part of the model in chapter 7 and it`s specific proposals and recommendations.

An overall overview of both streams (inside and outside) value drivers in M&A transactions is displayed in the Annex. Table 11.1 shows all literature examined during the research, its time period of research, the type of the study with sample sizes -if available- and its major findings in this area. Subsequently, table 11.2, displays all studies relevant for the target search regarding to the relevance of their major research topics. The exact impact on merger transactions are displayed if available and support the creating of an adequate target search process for companies approaching an M&A endeavor.

3.4.1 Value creation from motives – 'inside'

The value creation that comes from realized merger gains or synergies by combining two firms can be separated into two main types. There is some consensus in today's research that the most important source of synergies for merging companies comes from either 'cost-cutting' opportunities by production savings in the overall business operations, or strategic transactions that enhance market power (Lipczynski, Wilson & Goddard 2005, p. 258). Underlying motivations for cutting costs are often related to changes in operational decisions (Seth 1990). Based on the principle of economies of scale, average costs decrease at the increasing scale of production: redundant services such as human resources, accounting and marketing can be consolidated. Coordinating joint operations such as research and development might result in cost savings, and joint purchasing power enables companies to gain a higher bargaining power and benefit from better purchasing conditions. Rationalization reasons and marginal cost adjustment are further examples of saving potentials in merged companies. From literature overview as well as from the interviewed consultant experts, it becomes clear that most mergers today are built first on strategic

reasons, not on cost savings, and these are the ones which are most valuable in the post-merger analysis.

To be of real value for the acquiring firm, information about the target's future prospects and the way they fit into the acquirer's strategy must be accessible to and understood by the acquirer. From the internal business view, this involves ensuring a strategic fit between acquirer and target. This typically includes an in-depth analysis of the target company's strategic direction/market position, validated assumptions about future market trends and an evaluation of the acquirer's own strategic focus and objectives. Then, possible realizable synergies can be identified and measured and the actual strategic value of the transaction can be analyzed. Lipczynski, Wilson & Goddard (2005) p. 260 argue that only merger-specific gains that cannot be reached in any other way should be considered when evaluating costs and benefits of the individual transaction. These are described as gains emerging from "hard-to-trade" assets which are the real value adding assets, considered. Research also depicts different grades of strategic reasons. The 'good' strategic reasons, which imply actual value-adding potential, are as follows:

1) Positioning: Repositioning within an industry through a merger with another company can create advantages for the future. To profit from upcoming market trends, which could not have been captured as a stand-alone company, it is often necessary to buy certain skills and talents. Repositioning is a very important factor in fast-changing industries such as the technology/software industries. In these industries, time is often a crucial factor for competitiveness between the different players in a market.
2) Weakness Balancing: Combining two companies in which the acquirer's major weakness is a major strength of the target company can fill in strategic gaps and improve overall business approach. Weakness Balancing also is a way of strengthening overall competitiveness and

improving business operations. This sharing of complementary skills might enable the acquirer to build necessary skills faster than without a merger and help the company stay competitive in their business environment (Lipczynski, Wilson & Goddard 2005, p. 260).

3) Organizational Competencies: The acquisition of intellectual capital can improve development or the innovative approach of the acquirer. It can also encourage a joint network configuration that is used by both companies and results in synergies. In order to ensure an operational fit between acquirer and target, it is crucial to examine the actual organizational characteristics and their proximity to the acquirer's own organizational form, e.g. structure, technology systems, corporate governance, cultural proximity, etc. (Weber et al., 2013)

4) Market access: A broader market access can reach completely new geographical markets and/or new customers. This motive is one of the most-named motives by management boards. It's synonym for growth incentives which can be a value-adding strategy but also is driver for some executives to undertake high-risk strategies. "Growth" companies often realize higher multiples and market values. That builds wrong incentives for executives to grow desperately in order to get higher evaluations (Kim, Haleblian & Hinkelstein, 2011). But it can be of real value, and less risky to expand into new markets through acquisitions when the characteristics and features of the market/customer are mostly unknown, high language and custom barriers exist and political or legal systems are hardly to understand from an outside position (Gaughan, 2007, p. 118). China is a good example for such markets.

On the other hand, there are reasons which are often described by literature as non-value-adding sources. These are often the reasons management uses to justify their actions in front of the board, but they are not built on strategic thinking. These dubious reasons for mergers are:

1) Diversification: There are many examples of unsuccessful diversification strategies in real life. The main objective is to diversify the overall business risk by acquiring companies from related industries with different products or completely different industries and products, and to spread average costs over a wider range of goods production (Lipczynski, et al., 2005, p. 597). Management justifies such transactions using the argument of risk diversification. By combining diverse business models/products under one umbrella company, they argue, the risk is less severe that they will be affected by a single, strong market trend or downswing. Instead, the business is able to lose market shares in one part but still be strong in other parts of the business. Diversification is a controversial question in research on the subject. Penrose (2002), for example, argues that diversification can be value adding if there is a way to transfer existing resources such as skills and competencies into the new merged company. Nevertheless, in this context the focus is on unrelated industries merging, and therefore includes the most negative value effects in transactions.

2) Boost Earnings per Share/Short-Term Growth Incentives: Buying another company may lead to higher earnings per share and create higher growth in the short run. This earnings management can lead to wrong long-term, value adding decision in favor of increasing market shares in the short-term (Rappaport, 2006, pp. 3-5). Management cares about this particular growth number because their performance is measured by this value during their management period. Good management is expected to deliver constant growth on return, so there is incentive for representatives in the management positions to conduct accretive deals in order to strengthen their own management positions in the company (Kim et al., 2011).

3) Undervalued Target: The undervalued target company seems to be a good investment. This undervalued target motive often is a result of an opportunistic transaction approach, which

is described in more detail later. In this case, management can be under a certain time pressure because the target approaches more than one company looking for a buyer, causing them to neglect proper evaluation of the actual strategic fit between acquirer and target. This can lead to integration problems during the post-merger process, and lead in the end to the failure of the whole endeavor.

In conclusion: strategic fit between acquirer and target is of utmost importance in order to gain from possible synergies. The above-mentioned "good" strategic reasons are the real value adding drivers in an acquisition from the "inside" view and generally lower the risk of post-merger integration issues. Company decisions for transactions built on the overall strategy outline are justifiable and depict actual value-adding opportunities. Quantifiable synergy potentials in the outcome of this analysis make it possible to compare different target companies within the target-search process on the same baseline. Dubious motives and sources which devalue the firm in the long term should be avoided.

3.4.2 Value creation based on empirical analysis – 'outside'

Value created by the combination of two companies' operations is a result from different sources. Researched sources of success drivers are widespread. To include a particular research topic based on post-M&A performance studies into this work based, research on the individual factors is looked up and compared. If there are complementary results from different studies on the same factor, the decision whether the factor is considered as a value driver is made by a) comprehensiveness of the relevant study, and b) ratio of considered studies with complementary results. Furthermore in order to include a success driver into the pre-merger target-search, it is necessary that the factor is able to be arranged as criteria within the target-search process is from

acquiring companies. The relative importance of the individual factors in post-performance studies is defined, depending on the a) similarity and measured extent of its effects on a firm's value, and b) the overall consensus ratio from different empiric studies.

Acquiring company vs. target company benefits: First it can be said, that from research so far, there is some consensus about the fact that in many transactions stockholders from the acquired company only, can benefit from an acquisition. As a major reason, Weber (2013 (a)) argues, that often the premium, which is paid by the acquiring company, is the obstacle that prevents the acquiring company to realize additional value to the firm. Underlying assumptions are based on highly overestimated synergy effect, emerging from the acquisition (p.5). Only 1/4 of the acquirers can realize gains with more than 5% of increased share value. 1/8 of all acquiring companies excess their profits on more than 10% share value in the short run. In the long run according to Hazelkorn et al. (2004) acquirers were able to realize 0.5% overall market share compared to a peer group but including high variances (p.82). This studies don't have an impact on the target search but quantify the issue addressed by this thesis.

Announcement: The announcement of a transaction can already indicate an increasing or decreasing market value for the buyer company. Acquirers took on average losses between 0.5%-0.7% on the same date with announcing a merger. (Hazelkorn et al., 2004, p.82).

Bradley, Desai & Kim (1988) found empirical evidence, that single tender offers result in wealth increasing transactions in form of realized synergistic gains for both, the acquiring company as well as the target company in case of a successful offer. This result only holds during times of relatively low market regulations. Ravenscraft & Scherer (2011), found decreasing profitability of companies with tender offer activity compared to others. Due to the relative

difficulty to capture the real impact of this measured value and the big gap between this criteria and it's utilization in the target-search process, this dubious value driver is neglected.

Expected synergies from homogenous mergers: Synergy potentials depend on the particular grade of integration and the type of the specific combination. Expected synergies out of more heterogenic mergers are obviously less than from more homogenous companies. To improve value creation for the acquiring companies, this premium must be adequate. To not exceed the actual realizable synergies the best fitting company should be found and the synergy potential needs to be evaluated closest to actual reality. Weber (b) 2013, p.xii) also presents some studied context variables which are, size issues, relatedness, cultural differences and the buyers overall transaction experience. Regarding to him, pre-merger variables are of much less importance than researched post-merger variables.

Trust drives success within merger transactions: Searle & Ball (2004) or Schweiger & Denisi (1991) researched factors of trust and distrust related to different process factors within the merger transaction, as a crucial success factor. Schweiger & Denisi (1991) e.g. made experiments on information allocations. They spread different amounts of information to the employees in a merger process and found transactions in which the employees received more information from the beginning, had less dysfunctional outcomes from the transaction compared to those transactions in which employees received only limited information.

Horizontal vs. vertical mergers: Typically strategic mergers are considered as horizontal mergers because they achiever operating synergies. In this case two companies combine their production, that were competitors before or which had products or talents that complement each other. (Mukherjee, Kiymaz & Baker, 2004, p.18). Vertical mergers and their performance were researched e.g. by Kedia, Ravid & Pons (2011) and they found positive abnormal returns until

1998 for vertical mergers but afterwards the returns turned and became negatively related. Overall, they found that horizontal mergers imply much higher value effects (4.7% 1 day event window), compared to vertical merger (1.1% 1 day event window). Similar results were reported by Fee & Thomas (2004) as well. After 1998 only horizontal mergers remained positively related to value effects. Reasons provided are increased target sizes and lower market-to-book ratios. Most of the generated losses are suffered by the acquiring company. Fan & Goyal (2006) found positive returns for both vertical mergers (2.5% short run of 1 day event window) and also horizontal mergers (2.9%). But they reported higher value effects of vertical mergers between the 1980s and 1990s compared to previous decades. Also in the long run the horizontal merger seem to outperform vertical mergers.

Price Matters: A sample of mergers revised by Morgan Stanley in 2006 with over 1000 M&A transactions with a transaction value higher than $500mil. found that the average premium paid for a target was 36% above market share price. Acquirer who paid more than 39% lagged their peers who paid only 31% on average in performance one year after the transaction took place. From several expert interviews conducted in this thesis, it became clear that prices often increase within a bidding process and as a result premium is too high to . Therefore the experts agreed that bidding processes were tried to be avoided to lower the risk of paying a high premium which results in a higher probability of failure from the process. Bilateral agreements are favored.

Best Practice: The acquirer needs to ensure a proper target evaluation first. Evaluation is based on in-depth research and detailed understanding of the targets assets/liabilities and future opportunities. Moreover the acquirer company should set a premium limit before starting negotiating which is beyond 30% of the target shares value to avoid higher paid overall premia in the end resulting from incorrect evaluation or unexpected market changes. Besides, Morgan

Stanley also figured out that a premium paid on targets which is close to 25% outperforms their peers persistently.

Hazelkorn, Zinner & Shivdasani (2004) determined a comprehensive overview of mattering factors during an M&A process in the long term through the conduction of a regression based analysis between assumed success factors and its individual value creation impact (impact on stock prices). The mattering factors regarding to their study are[1]:

1) Financing structure: supposed to be more valuable with a cash-including strategy.
2) Target company status (public vs. private): with higher performance outcomes of private targets
3) Earnings growth: with favor to companies with low expected earnings growth
4) Foreign vs. domestic acquisitions: Success rates including foreign targets are higher than targeting domestic companies[2].
5) Focused vs. diversifying acquisitions
6) Strategic fit can be examined through synergy potentials in different areas of the merging companies. These can occur in operational units such as: marketing, development, construction, production, controlling, administration, calculation, pricing, image, cooperation etc.

On the other hand Hazelkorn, et al. (2004) identified factors which does not matter in the merger process, those are value creation variations between transaction sizes, earnings per share impact, credit rating impact and profitability & volatility (p. 8). The presented results were in the

[1] Analyzed were 1,547 transactions between 1st January 1990 and 1st January 2002. The panel consists only of U.S. acquirers with transaction values above $250 million and at least 5% of the acquirer's entity value. Domestic and foreign acquisitions are included equally.
[2] A remark has to be made in terms of the data panel, which includes 144 companies of the U.S. with oversee targets

following justified or complementary discussed involving more relevant literature on these research topics to identify reasonable factors, that can be included into the pre-merger target-search.

Reg. 1) Financing structure: Cash deals vs. stock deals: Hazelkorn et al. (2004), Morgan Stanley (2006) and Kohers & Kohers (2000) as well as many more authors examined the interrelation between the acquirer's firm value and the mergers finance structure. They affirmed the correlation between cash deals and its positive influence on value creation compared to stock deals, which underperform significantly their peer groups. A cash deal leads to realized gains from 0.9% compared to -1.9% for stock deals regarding to Hazelkorn et al.. Also Kohers & Kohers came to the same results with higher value returns for cash deals compared to stock deals.

The difference between the two methods can be explained by the distinction of risk within the transaction. In cash only deals, the acquirer shareholders take the entire risk in case that the expected synergy value which is displayed in the transaction premium will not be realized. In a stock only deal, the overall transaction risk is shared with the targets shareholder. The individual risk distribution depends on the exact split of ownership between target and acquirer shareholders. Stock deals imply a huge amount of information asymmetry and often communicate less confidence about the really expected synergies from acquirers company management due to the fact that they choose stock over cash and therefore share not only the risk but also the outcome of a deal with a less controllable party.

Best Practice: The advice to take advantage in an M&A transaction and to avoid value losses, is to choose cash over stock as payment method for the transaction. This optimization criteria seems on first sight to be hardly includable into the target search process due to the fact that not only the acquiring company can decide on how to pay a target company as well as external

financing issues could be an obstacle for acquiring companies. Nevertheless, the value implication of cash deals is directly connected to the "public vs. private" issue, explained beyond. Therefore it can be considered indirectly during the strategic planning for the merger through focus on private companies and then it is possible to take it into account within the target search process.

Reg. 2) Public vs private: The ownership structure of a target company is an important factor for value creation. The acquiring of private stated target companies leads to higher firms value than acquisitions of public companies. The effect in the long term is around 4.2% of realized gains with the acquisition of a private company compared to -4.4% of a public company. E.g. for private companies are no public prices existing, like we have them from public listed firms. Therefore the target company could be bought on a lower premium compared to public companies, where prices often after announcement of the merger even rise and therefore the premium increases as well.

Best practice: This driver of success, is directly connected to the cash vs. stock issue. Generally private company acquisitions are typically a cash-driven transaction. This driver of success is definitely a factor which has the ability to build a criteria within the target search process and should be considered as a mean of value creation.

Reg. 3) Earnings growth:

Even though Hazelkorn et al. (2004, p. 86) could only analyze market reactions on public transactions due to the scarcity of data for private companies. Nonetheless, they found that acquiring companies benefit either in the short as well in the long-term from higher gains, if expected earnings-growth rates were on a low level. An explanation provided is the maturity of the industry. For target companies in more mature industries were paid on a median 10% lower takeover premiums than for companies in high expected growth industries. Acquirer tend to

overpay targets due to the "overheated" market environment in trend industries.[3] This issue is of the nature like "price matters". The paid premium is a crucial driver for a successful transaction and in order to avoid overpaying, the time point for such an important strategic investment is critical as well.

Best practice: Investing into M&A projects must be carefully evaluated or neglected during phases of overheated markets and generally is more favorable with more mature industries, or on an overall downswing. Then, assets are no longer massively overvalued but only slightly, if at all. Insofar the risk to generate the required turnover to achieve a positive net present value is lower.

Reg. 4) Foreign vs. domestic or cultural proximity – A reason for success?:

This topic was investigated several times in several manners, with different results. E.g. Chatterjee, Lubatkin, Schweiger et al. (1992) links shareholder value and cultural differences together. Stahl & Voigt (2008) examine cultural and organizational differences in merger and acquisitions. Previous literature often mentioned the negative impact of cultural differences within M&A transactions. Different values and beliefs, legal issues, political differences counted as reasons for conflicts and therefore failure of post-merger integration. E.g. David & Singh (1994), Javidan & House (2002). The sustainable integration of different cultures and the avoidance of emerging conflicts became one of the most researched topics in the last 30 years and it is a crucial issue for enterprises (Jansen, 2000). Nevertheless, recently undertaken studies show that this is not the case, but the contrary is the case. e.g. Chakrabarti, Gupta-Mukherjee & Jayaraman (2009) examined based on Hofstede's 5 dimension of cultural proximity, that merger with a higher degree

[3] See transaction premiums paid e.g. during the merger waves or during economic bubbles such as the dotcom bubble up to the year 2000.

of disparity perform better than transactions from the same country. Chatterjee, Lubatkin & Schweiger et al. (1992) tested, the hypothesis whether success of transactions is related to the compatibility of top management cultures. Perceptions about the target company's management were set into relation with stock market gains of the buying firm. The results suggest a strongly inverse relationship and supports the expression of higher probabilities for success in case of less cultural differences between target and acquirer. Hazelkorn et al. found an exceed of the value effects from foreign mergers about 0.8% compared to -0.6% in the short run and in the long run an even larger value effect of 8.4% resulting from foreign mergers. Reasons were that despite the higher degree of foreignism and cultural issues, the broader market access and the know-how on foreign markets exceed the drawbacks.

Best practice: As a conclusion it can be said that cultural issues in mergers are not anymore considered as a reason for failure recently but the actual handling with this differences in the integration and negotiation process. Therefore it depends on the objectives of the acquiring company and the degree of know-how about foreign markets which is bought also by acquiring a foreign company. However, it is important to consider this issue during the target search already, in order to setup an integration plan for cultural differences in the very early stage.

Reg 5) Focused vs. diversifying mergers: Seth et al. (1990) e.g. provides empirical evidence in his studies that related merger in contrast to unrelated mergers are relatively superior in terms of the value creation during M&A processes. Unrelated mergers often do not result in success and consensus is given in literature that related mergers are highly favorable. However this does not necessarily imply a successful transaction. Only overall success rates are typically higher than from samples with either no separation into related/unrelated mergers or only unrelated mergers. Berger & Ofek (1995) also reported that firms operating in unrelated industries (based

on industry SIC code) have less value than their peer companies operating only in related industries. Hazelkorn et al. (2004) found that focused mergers, defined as transactions in which buyer and target-company are from the same industry group (reg. to S&P) are superior. In the short term they reported for both transaction types negative results. In the long term, focused mergers outperformed their peer group by 2% and diversifying mergers underperformed their peers by almost 3%. As a possible explanation it can be said, that synergies are easier to realize in focused mergers and strategic objectives maybe easier to achieve with mergers in related industries.

Best practice: It can be said, that focused mergers, in related industries are the preferable option compared to unrelated mergers. Diversifying motives, as previously mentioned, were dubious kind of motives. This seems to find evidence from research as well. Therefore the strategy outline for mergers should rely on M&A growth for related markets, only in order to achieve a higher probability of success for the transaction.

Post-merger integration and its influence on value creation is examined by many researchers since years. In this stage it becomes clear whether the integration can be realized successfully and expected synergies are met. Shrivastava (1986) e.g. argues that integration issues are various and the advice how to handle them during the process are diverse. It requires a high degree of problem solving skills from the acquiring company in order to include systems, processes and authorities (Weber ((b) 2013).

3.5 Relevance for target search process

The mentioned value drivers are the most popular value drivers considered within the vast amount of M&A research so far. The post-M&A performance driven studies are legitimated mostly by the underlying assumption that the increase of shareholder value is the only objective

for companies to engage into an M&A process. However, not all of these value drivers, are capable to serve as default criteria for the target-search process. From all above-mentioned post-M&A performance studies and their presented success factors, the relevant factors that can be included into the target search by creating specific search criteria are:

1) Related vs. diversified acquisitions. With clear favor on related merger endeavors.
2) Vertical vs. horizontal mergers. With favor on horizontal mergers. Vertical mergers can be of valuable
3) Earnings growth. With favor on mature industries with slowly increasing earnings.
4) Organization structure
5) Market price/premium issues. A previously settled framework for investment, done for every individual target in the short list avoids paying a premium which is too high
6) Size. Economists are still divided on the extent of the relevance of the relative size between acquiring and target company.
7) Public vs. private transactions. With a clear favor on transactions in which private companies are the target companies.
8) Cash vs. Stock with a clear favor on cash transactions, due to the connection of this issue to the public vs. private criteria it is included into the target search only indirectly.
9) Price/ Premium topics. With the advice to avoid bidding processes whenever possible, this includes maybe just a switch from a passive towards a more active M&A approach.

By the approach of experts in the following chapters, some of these factors are evaluated in-depth, others were neglected, as they seem to be of less importance from a process-oriented perspective and based on the interviewed experts' opinion.

4. FOCUS ON PRE-MERGER PROCESS

4.1 M&A approaches

The general approach towards an M&A project and its embeddedness within the company's strategy is, at a high level, dependent on the individual company. For example, the company's size plays a major role in the approach towards merger and transaction processes. Multinational companies with a turnover of more than €1-2 billion do generally have an independent M&A department that screens the market and the competitors in the operating industry permanently. Smaller companies, on the other hand, sometimes only have one responsible person, or not even this, but simply one person from the controlling/finance department who is doing the additional tasks, coming up with transaction procedures. Often M&A is not being considered as a part of the overall company strategy (Interview E) and hence, there are no available resources for this department.

There are three major types of approaching M&A endeavors:

1) Proactive: Described by the active search for targets in the relevant industry. Challenges and opportunities are investigated for the overall company and targets are screened and evaluated from pre-defined criteria, based on the previously defined, internal acquisition strategy.
2) Reactive: Described by an outside approach and its response to an upcoming opportunity. A seller company approaches the buyer company in a market that is already considered to be attractive and coherent with strategy objectives. E.g.: the founder wants to sell his company due to any reasons and approaches other players from the same industry, in order to find a buyer and to reach an optimal price.

3) Opportunistic: Described by an outside approach and response to an upcoming opportunity in a market which was not previously considered an attractive option.

Options to enter in a M&A process are varying but a proactive approach increases probability of success and avoids bidding processes which often take place, when a company is waiting for opportunities to occur instead of creating them on their own (Weber, 2013, p.85). Only with a proactive approach, the buyer company is empowered through strategic planning to be indispensable to guarantee the effectiveness of the endeavor. A factor for distinguishing these different approaches is the chance for appearance and the probability of value creation for the acquirer. Opportunistic acquisitions are first of all quite seldom, and second, only rarely value-creating due to less preparation and a low level of realizable synergies after the process. Furthermore, there is often a missing strategic impact on the acquiring company's strategy outline. Reactive acquisitions still appear on a relatively small extent but with a somewhat higher probability to add value to a firm, due to the fact, that it is an already internal considered market for further growth. The negative aspect which can arise during the negotiations is a position of weakness for the buyer as a result of the fact that the providing seller company approaches not just one potential buyer but many. The consequence is a bidding process in which premiums could rise above a valuable level and the so-called "winner's curse" emerges.[4] (Betton, Eckbo & Thorburn, 2008, p.319). Finally, with a proactive search, both, the chance that a transaction occurs is naturally strongest and it also includes the highest probability for adding value to the company, as it is integrated into the planning process and the company's overall growth strategy. An active search is based on previously conducted analysis on core competences of the firm, its core markets and

[4] A phenomena from common-value setting method, in which bidders receive private signals about the true value of a company. The acquiring company, with the largest positive signal, providing the full value of the signal, suffers from the "curse" which is the overpayment of the target.

competitors market positions etc. Therefore, the acquiring company, generally evaluates more than one company in a target-screening procedure and then selects the one, which fits best to the company. The focus in an optimized target-search is this proactive approach, because the relevant target search and other dimensions of interest only emerge within this approach in an adequate manner. On the other hand, this does not imply that opportunistically occurring chances, should be neglected but it means to take the time for an adequate evaluation of the target and also to review the potential seller company on its fit into the owns company strategy and consider potential alternatives (Boos, Heitger, 2005, p.89).

4.2 Decision Making

Within the overall transaction process, the pre-merger phase begins when the initial decision for a transaction is made by the management. This assumes generally an active approach. Gösche (2013, p.7) suggests in this context a detailed growth potential analysis for the own company. This strategical analysis depicts different growth incentives and opportunities for the company. Based on these insights, the formulated acquisition strategy optimally is in line with the overall company's strategy. The decision then, is generally made by the board of the company, as a merger process has a deep impact on the whole company and its operations, it requires large investments and contains many uncertainties. Therefore, the board and the responsible persons from the departments have to make sure that all relevant aspects were carefully considered, e.g. strategic fit, legal issues, etc. (Gaughan, 2007, p.22).

An M&A project begins with a clear understanding of micro- and macroeconomic factors of the home markets, industry trends, and forces, followed by the development of the company's strategy and the right choice of the best fitting target in this particular environment. Embedded

into a highly systematic approach, the company's, core competencies and future outlook are examined, as well as the targets approach, a clearly defined conceptual framework, and planning, including the scope that is needed to be covered within the process.

From the interviewed experts as well as from previous research, it became clear that this recognition cannot be verified. Many decisions made for a transaction are not taken proactively by the acquiring firm. Instead, decisions are often made based on opportunism. Most of these opportunities emerge suddenly and require fast-paced decision-making from the management board due to the fact that competitors often receive the same offers, and time is then a critical factor. Often an active decision for a transaction endeavor comes together with the inclusion of consultancies during the procedure. In this case, consultancies enter the stage in the very early phase and support their clients with pre-target search stages, defining relevant criteria for the search, etc. Part of this is an analysis of markets and targets available on the market based on specific synergy potentials for the client. The experience consultancies contribute into the project is most valuable for small companies, because small firms normally do not have a special M&A department or precise structures to conduct a complex process like an acquisition. For these company owners, when M&A is a once-in-a-lifetime decision, consultancies can compensate for lack of experience and support companies with their own experience and structured methods.

4.3 M&A process

An acquisition is a complex process with sometimes differently-defined stages. Most common is a process-oriented description used by Picot (2002) and Lucks (2003) to structure the process in an appropriate manner. Both divide the overall process into two major surrounding sections and the transaction itself, following a time-functional sequence. The individual stages are

set up on a timeline: 1. Pre-merger or preparation processes, 2. Merger transaction (the final closing which is defined by the "completion date"), and 3. Post-merger process, that deals with challenges of implementation issues and the integration of both companies (Waas, 2005, p.19). The above-named phases are further subdivided into several components. The figure below shows the process in its logical order with the included components for each phase.

Interrelationships between the single stages were not considered in this model. This static approach with its events in logical order in a timeline is starting point for the examination of influencing factors for the performance improvement of the transaction.

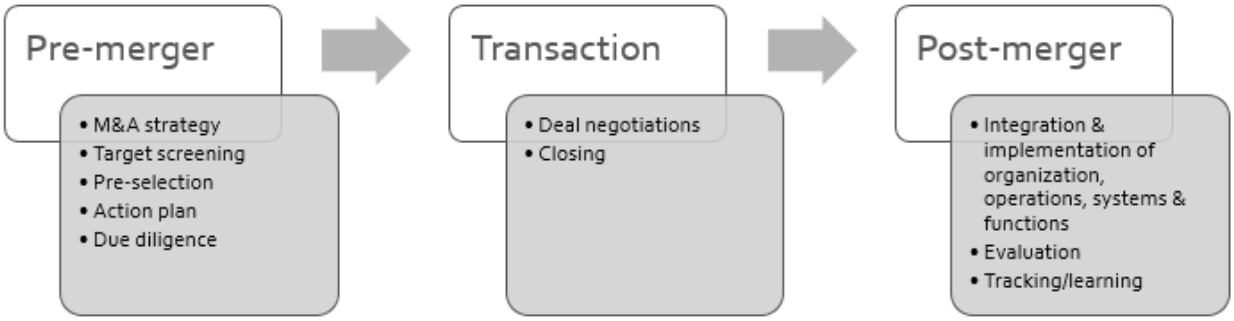

Figure 1: 3-stages M&A process and its components (own presentation)

An analysis of the company's internal portfolio and its strategic direction for future growth is the starting point within the M&A process. Specific objectives are defined based on the strategy outline e.g. market share increase, new, technologies, product diversification etc.Decision-making referring to the main growth businesses potentials within the company and prioritizing areas of importance is then connected to the go decision for external growth. Alternatives like alliances or other strategic combinations such as joint ventures, joint knowledge platforms etc. are to be considered. Then a resources and budget allocation plan is set up. Depending on the goal can the acquisition be of horizontal or vertical nature. Relevant action steps for companies are the formation of a taskforce team, which is at least partly off from daily tasks and can concentrate on

the M&A procedure. Secondly, measurements on which success can be evaluated must identified by this team and the executives. The integration potential of factors such as synergies and strategic coherence with the target are important to consider. With the negotiations and the transaction itself the process enters the post-merger stage. In this the actual integration takes place and success evaluation is done. Noticeable and objective figures of a successful M&A project for the time after the acquisition could be: rate of innovation, pricing compared to a peer group, flexibility within the production planning, brand image, customer base, revenues etc. Regele (2014) provides a catalogue of such premises which should be adhered to in order to always be in line with objectives during the process.

Within this rudimentary framework, the discussion about the single phases is diversified. There is no empirical consensus on the particular stages of the M&A process (Gomes, Angwin, Weber et al. 2013). In further consideration, the two-phase approach (excluding the actual transaction) is important because the backward implementation of success factors from post-merger phase into the pre-merger phase is relevant mainly between these two stages. Boundaries between the processes on a more detailed level are not specifically defined. The following process-outline includes more detailed information on its individual stages, based on Gleich, Hasselbach & Kierans (2012), Gaughan (2007), and Mendenhall (2005), to clarify the process and to define particular areas of interest for companies with M&A incentives. I categorized the overall process into 5 sub stages with a clear focus on the pre-merger phase:

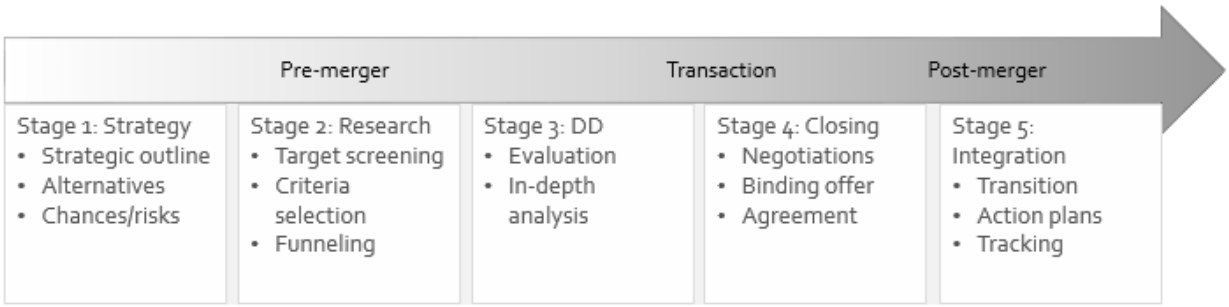

Figure 2: Detailed M&A process without interrelations (own presentation)

1) Stage 1: M&A strategy development: Assessing the company's current situation, possible portfolio gaps and determining the strategic direction and objectives that should be realized in the future. Strategy alternatives, particularly the choice between organic and external growth, are to be considered along with alternatives from different strategic alliances. Synergy potentials are examined and evaluated, chances and risks are identified, a framework is set up including the allocation of necessary resources, an investment budget planning, and responsibilities are assigned to decision-makers.

2) Stage 2: Research & target screening: Analysis of markets and competitors and the search process for potential candidates is the following step after the definition of an adequate strategy. To conduct a value adding search, preliminary search criteria must be determined. These are coherent with the company strategy, organizational form, and goals defined during the planning. The market screening results in a pre-selection of potential targets and the preparation of watch lists. The calculation of a target's strategic fit, synergies, and costs savings is conducted and with effective funnel management, the potential targets are organized and the best fitting target is selected for further investigation in the next step. (Gleich et al., 2012, p.18-20).

3) Stage 3: Due Diligence & evaluation of the target: Based on the pre-selection in stage 2, an in-depth analysis for one/few possibly relevant targets is undertaken. Due diligence is a

mean to review a company's actual value, and normally it includes a signed LOI (letter of intent), which guarantees the confidential treatment of the other company's data. Typically included shared data is: detailed firm data, financial data further details on production/service structures, distributor-and supplier-contracts assets of particular importance or other contracts and budget plans e.g for future investment needs, earnings forecasts etc.. Within the due diligence off-the-balance-sheet risks can occur, including negative effects on the evaluation. It also gives a detailed overview about intangible assets such as certain technologies. Gleich et al. (2012 p.5, pp.23) recommend that not only financial numbers and legal concerns should be contemplated on a detailed level but also such factors as strategy, operational approach, organization etc. Cullinan, Le Roux & Weddigen conducted 2004 a study with 250 managers, who already had experience with mergers and found out that half of the sample questioned was convinced that the most serious issues weren't revealed. Furthermore almost one third admit that the transaction was made although the due diligence audit outcome was negative. Within this in-depth analysis the acquirer gets the chance to revisit actual targets value in terms of strategic fit and operational fit. A common trap is to base the due diligence on the already made expectations and structure the due diligence activities in a way that evaluates a target's strategic fit to validate beforehand made expectations which are somehow too optimistic. Better and sometimes resulting in a negative M&A decision is an objective approach, in which a realistic stop- or go-decision for every particular target is made based on the outcome of the objective re-evaluation. Furthermore when negotiations seem to be unreasonable tough it is better to stop negotiations on an early stage instead of striking through and put resources and money into the negotiations process. (Gösche, 1991, p. 65).

Based on a well-done due diligence, the acquirer is able to evaluate the target more precisely, track the actual fit with their own strategy, and avoid overpaying the target during the deal negotiations.

4) Stage 4: Deal negotiations & closing: Based on the evaluations made in stage 3 and the existing knowledge base, the deal negotiations begin either on a friendly basis or with a hostile background. Negotiations are generally the task of both companies top management (except during hostile takeovers). Problems and issues to be solved during this stage are diverse, e.g. the resistance coming from the target company's management etc. Also, new emerging insights from due diligence can have profound changes in target evaluation and may affect the negotiations. The exact time of deal disclosure is not yet regulated, but the company has an obligation to disclose when confidentiality could be at risk (Gaughan, 2007, pp. 18-21).

5) Stage 5: Transition & post-merger integration: When the deal is settled, the so-called transition phase begins. More people become involved, integration plans are set-up and principals created. The actual integration starts after closing the deal within the model from literature at least. An optimal integration is one of the crucial factors of success for the whole merger. Only with successful cooperation during the merger can the acquirer generate expected synergies. This implies often a complete financial integration between both companies, undertaken in short-time frames to avoid uncertainties for both companies' employees. Moreover, critical components within the post-merger integration are the communication between management and personnel, a clear outline of the new strategic objectives, cultural alignment, and integration within functional parts such as:

Human Resources, IT-systems, platforms, business processes, etc. (Mendenhall, 2005, p. 41-42).

The above-described process is static without any overlapping factors within the individual stages. In the following part critical success factors are displayed and explained, based on present literature. This factors are situated in accordance with the stages from the process above but only separated in pre-merger and post-merger occurring issues.

4.4 Pre-merger structure

The pre-merger phase includes all preparatory measures taken, to support a smooth integration in the post-merger stage. High uncertainties mean this all-encompassing project requires clear and efficient management action. For the acquiring company, the crucial issue is to find a strategic partner who is primarily coherent with the internal M&A strategy. Secondly, under these strategic conditions, the company has to consider being incorporated into the administrative structure. Therefore, depending on the strategic integration choice, the target must fit to the acquirer. And third, to gain the expected value growth from the merger, the selected target company must contribute to the acquirer's objectives in the previously estimated scope. Figure 3 depicts the pre-merger process regarding to Regele (2014), including critical questions that should be considered during the premerger stage.

Figure 3: Pre-merger process according to Regele (2014)

The strategic approach of an acquisition is based on consecutive stages, which include questioning the company's own focus and examining on an ongoing basis whether the decisions made in the previous step are still valid with respect to the project requirements. Activities are analyzed and reformed when appropriate for the further process. In order to add value to the acquiring firm and achieve the strategy objectives, not only the actual target search is a crucial factor, but also the advance preparation outline for the comprehensive company strategy.

4.4.1 Foundation building

The first step is dealing with the original company, including a strategy definition based on the company's current situation. In this step, market conditions are considered and decision criteria evaluated. Based on this evaluation, the outcome is the answer to the question of whether an acquisition strategy is the right one or whether the current business situation requires other actions to be taken into account. This first approach depends to a large extent on size and experience of the acquiring company. Multinational companies do have a strategy which contains M&A as a certain part and it is reviewed annually for adaptation. Mid-sized and small companies generally do not have a particular M&A strategy integrated into their overall company strategy. (See interviews A, B, C). This step is especially important for these companies, so that they clarify

the framework for the acquisition strategy and have a clear vision of what they are searching for and which alternatives are existent. Today, it is no longer necessary to own and control the complete business in order to have access to technology or assets. Other opportunities like partnering, joint ventures, etc. should be considered and evaluated in terms of what the company is actually looking for and how this objective can be reached in the best possible way (Regele, 2014, p.46). This includes activities like an overall analysis of markets/industries which are already served by the company, and a second analysis of other industries that could have strategic impact for the future and should be considered as opportunities. The critical factor in this analysis is the understanding of the industry's environment, trends, and future perspectives, and the ability to align these insights with the business's objectives. The acquiring firm has to determine which products of which quality they want to provide in which markets or regions. (Gösche, 1991, p.20).

Another important activity that is part of the strategic decision is the definition of an indicative financial framework for any acquisition-related expenditures. This early budget definition is a result of the strategic planning process. In case of a portfolio optimization strategy in which the company examines so-called "white gaps" in their portfolio that they want to close through transactions, the need for an adequate evaluation of this feature is the basis for the financial framework of the acquisition project. (Interview B)

4.4.2 Profiling

If the decision is made in favor of an M&A process, the original business profile is examined. Weaknesses and strengths as well as a cultural profile, organizational forms, chances and risks, possible barriers, and specific communication plans are investigated. Gaining a deep understanding about the company's current core values provides insight into the relevant sources

for creating sustainable value later in the form of synergies. This company profile is the basis for relevant selection criteria in the target-search process. Based on the evaluated strengths, the question arises of how these contribute to potential synergy effects together with a target company. It needs to be considered how the exploitation of growth can be used in order to add value to the company in the future, and whether it is even possible to exploit these synergy potentials in the form of an acquisition or whether there are other alternatives. The strategic objective defines the framework for integration plans, and resource plans for the transaction process are established and organizational tasks specified. The purpose of the profiling is to define the closeness of target companies compared to internal core competencies. Generally there are four possible stages of strategic relatedness, each of which require different criteria for the target-search in order to optimize the selection. The definition of the strategic fit is made based on these four levels and after a systematic analysis of the original company, the markets, competitors, and industry has been made and criteria of importance have been defined, the actual target-search can begin. These four merger approaches according to Third Coast Capital Advisors (2015) are diversifying, complementary, strategic and highly synergistic.

Figure 4: Merger approaches[5]

4.4.3 Target Search

To proceed with the process and actively start the target search, the question to answer at this point is: "Are we ready to search for targets?" The transaction outline and the requirements for the target company should be clear, based on business characteristics form the framework for adequate targets. Following the outline for the actual target search, it begins by defining certain instruments and tools based on criteria for evaluating the targets adequately. Cultural profiles on strategic fit are made using the same criteria involved in evaluation for the original business and a constant re-evaluation of decision criteria takes place. I suggest integrating the new module, which is based on the findings of empirical research, into this step and building criteria on evaluation methods according to the individual business. Only when the research criteria examined beforehand and the necessary strategic fit can be satisfactorily measured by the customized target search catalogue does the actual target search begin and potential candidates begin to be examined.

[5] Presentation according to Third Coast Capital Advisors „how to conduct a successful acquisition search" January 2015

A disciplined target search from the beginning is one of the key factors for staying coherent during the process. Therefore, a clear definition of value creation logic has to be translated into measures on which base the company can actively sort the targets. The determination of relevant tools and necessary actions is made within this stage. This concept paper includes factors which must be fulfilled and restrictions which have to be excluded by targets to reach the goals of the acquiring company. Tools to be used during the target search include databases, industry experts, exhibitions, personal relationships, keyword searches, press releases, classified directories, newspapers, records, etc. This procedure enables the acquiring company to build a target company profile and to evaluate the strategic fit with the own company profile.

Second within this stage is the activity of funnel management based on the evaluation criteria and unbiased scoring. This means building a long list and managing the funnel process on this long list to be able to define the short list, and, in the end of the process, examining the best fits for contacting.

4.4.4 Contact

If some promising candidates are identified during the target screening, the decision about which of them should be contacted is based on the best fit to the business. The companies contacted are the ones that were observed to have the highest potential fit in the end, based on the criteria catalogue and its objective assessment. Of course, the outcome of the target-search process depends strongly on targets available on the market. Nevertheless, if there is only one or just a few targets available in the industry being screened, these targets need to be evaluated on the same criteria and have to pass the same strategic checks as in a comprehensive target search with many companies and an extensive funneling process. In every case, checks for strategic and cultural fit

are made to avoid creating a biased view of a target (Interview B). In contacting the candidates, the business retrieves the framework for eventual transaction probabilities. If these conditions are positive and potential targets are available, it is important for businesses to re-evaluate the criteria on which the decision is based as well as target-specific risks, and possible synergy potential has to be reconsidered before entering into negotiations. In the case of a "go-decision," integration plans and serious negotiations are the next step towards achieving an agreement for a transaction.

4.4.5 Awareness building

The preparations for the post-merger integration are specified in this step. Based on the selection criteria for the targets, plans are expanded on a more detailed level than before. The interviewed expert (Interview F) from one multinational company mentioned that a specific integration concept paper is designed in this stage which includes actions to be taken, responsible persons and departments for the individual actions as well as certain due dates and benchmark aims to be achieved in the event windows.

During to the preparation and execution of the project, the capacity for operational activity must not be neglected. Especially in smaller companies, the acquisition process can affect resources to a high degree, such as the time of the executives and other personnel who are dealing with the acquisition and are as a result less concerned with the day-to-day business. This can have negative effects on the original company's performance and cause issues during the process.

4.4.6 Pre-merger phase: Critical success factors

Empirical research (Gomes Angwin, Weber et al. 2013) and a survey conducted by KPMG with responsible executives in the management board from acquiring companies show that critical

success factors in the pre-merger phase of M&A processes vary. Some of them are of qualitative nature and very specific to the individual company; from others, empirical evidence suggests that they are quantitative value source drivers that can be implemented into the target-search process. The critical success factors are:

1) Right choice and adequate evaluation of target companies

The right choice of the strategic partner is a crucial point of successful transactions. Both strategic fit and organizational fit have to be guaranteed, and possible synergies have to be defined and evaluated realistically. KPMG presented a survey which pointed out that pre-merger synergy evaluation is one of the most important factors behind a successful M&A transaction. The probability of success increases about 28% with a realistic synergy potential evaluation that can be realized later. The simple reason is that with the wrong target or an inadequate evaluation of synergy potentials, fewer or no synergies can be realized and the probability of failure in the M&A process increases. This evaluation done not only during the due diligence process, but also beforehand as much information as possible is to be captured to order to develop an ordering of relevant targets based on criteria including all possible factors of strategic fit, that could be from interest. The due diligence phase is a process that includes already the “stop” or “go” decision for the acquisition of the one specific pre-selected target. This decision is based on an in-depth evaluation during the due diligence. The relevant approach is to weigh all factors of strengths and weaknesses adequately in an earlier stage which then leads to this pre-decision for a target company.

2) Previous Interactions

Previous interactions, involving in-depth knowledge about the relevant markets defined by business relations before the transaction and many years of experience in the market in which the

transaction should take place, deepen overall understanding and ensure a realistic evaluation of the target firm and its fit into the business strategy. This can be observed in vertical mergers, when the acquirer buys up or down along the value chain to amass gains from efficiency advantages. Communication seems to be better between target and acquirer when both sides have successfully worked together before. Trust regarding capabilities on both sides are much more pronounced than with management from unknown companies. This is particularly important in cross-border transactions, due to the fact that cultural differences add to the state of mistrust, and consequently, misunderstandings follow in communication and execution.

3) Size of the target & organizational form

Underperformance mostly goes along with huge mismatches in form, varying size between acquiring firm and target, or from internal organization differences. With a target too small or too big in relative size, empirical research indicates that the success rate of those transactions is lower than in peer company acquisitions which did not vary to such a high level in company size. The second issue lies in similarity of organizational form. Some relatedness between both companies in their organizational form supports successful transactions (Chung, Singh, Lee 2000).

4) Paying the right price

Value is often destroyed by paying a premium above the adequate price, which makes it more difficult for management to get satisfying returns on their investment. This issue becomes even more important if higher information asymmetries between both companies are existent; due to the cultural divergence, this is often the case in cross-border transactions. Research also indicates that bidding processes create higher premiums and therefore increase the probability of transaction failure.

5) Accumulated Experience

For most companies, M&A transactions are very rare events. Most often, no internal knowledge base exists. An adequate planning process is even more important in order to cover this lack of experience and increase the probable rate of success. Acquirer companies can typically be separated into three types, which are:

a. One-timers: acquire rarely, acquisitions are no active part of the growth strategy

b. Active buyers: selective acquisitions, focused to strengthen portfolio

c. Portfolio builders: serial acquisitions, consolidation within industry or heavy expansion to new markets

Portfolio builders and partly also active buyers already have a strategic approach towards M&A and the specific target search. One-timers are usually a long away from having adequate procedures and efficient evaluation of targets, since they have no recourse to previous experience and have to build a new knowledge base from the ground. Therefore, it is not surprising that one-timers have the highest M&A-failure rate compared to their peers with a rate of 57% transactions failing. In the study conducted by BCG[6] they also found rates of only 2% of the average shareholder return among one-timers in the first year after the announcement date. Active buyers and portfolio builders have failure rates of at least 49% and 44% respectively, and generate average rates of return of 6% and 8% in the first year. An obvious reason for this is the experience base on which active buyers (and portfolio builders even more) can build. The strategic approach to M&A is mature and developed compared to one-timers. Search processes are optimized, and an internal knowledge base already exists. Also, in-depth knowledge of key industry factors and trends as

[6] BCG (2012). From Acquiring Growth to Growing Value. *In The 2015 M&A Report* October 2015. Retrieved from https://www.bcgperspectives.com/content/articles/merger-acquisitions-divestitures-from-acquiring-growth-growing-value/. (16/05/2016)

well as possible targets are generally better understood from regular screening and internal updating.

6) Communication

Good communication is generally agreed to be one of the most important factors of success, but is still one of the highest risk factors within transaction processes. Bad communication can lead to uncertainty and rumors resulting in considerable disturbances of the transaction process. It can also unsettle employees and have negative effects on motivation and commitment. (Angwin, 2001). A good communication strategy before the merger includes all external parties such as the press and other stakeholders. Often value is destroyed by bad communication strategies, when rumors were encouraged by uncertainties and these contribute to a drop in share prices on capital markets.

4.4.7 Post-merger phase: Critical success factors

The overall value creation of a merger is determined in the end by the level of effectively realized synergies. These result from the level of integrated operations. To integrate successfully, it is necessary to identify any sources of trouble that may arise from the integrational phase as early as possible. Gösche (1991, p. 83) identifies two different types of reasons for failure in the integration stage:

a) Internal reasons which arise on the side of the acquirer, the target, or during interaction between target and acquirer
b) External reasons that can arise from relationships with external parties such as customers, suppliers, distributors, or investors or from changes in political or legal principles

Integration planning is important due to the complexity of the process and the many parts that are considered relevant. To optimize this planning process, the crucial factors should be part of the transaction process as early as possible. Some of the critical factors of success coming from the efficient post-merger integration are as follows:

1) Efficient integration strategies and timing

This is based on a research framework from Haspeslagh and Jemison (1991). They found four different integration strategies for acquisitions, dependent on the individual company's expected level of synergy gains. These strategic objectives require variations in integration implementation to ensure optimal combinations of both companies operations. The integration strategies they display are symbiotic, preservation, absorption and holding. There is a vast amount of research regarding different strategies for integration in recent publications and these are relevant for early inclusion in the target screening process to avoid problems later on. Weber (a), (2013, p.25) examines two critical factors which determine the strategic approach. These are synergy potentials and the level of integration needed to realize those synergies.

2) Speed of Implementation

Angwin (2004), considers speed a crucial factor for post-merger integration. He regards the symbolic period of 100 days as critical for acquisition success and suggests being careful with the complete acceptance of speed during the implementation phase. Generally, the speed of integration is dependent on the level of synergy implementations, individual objectives that want to be achieved, and the selected integration approach. (Weber (a), 2013, p. 22). Interviewed experts nevertheless still see the speed factor as an important one for successful post-merger performance.

3) Communication strategy

An effective communication strategy is important to avoid stress, tensions, lessened commitment from employees and lower levels of coordination. Better informed personnel evidently feel better-involved in ongoing processes and therefore show higher commitment to the job and the company. Trust in management is built on good communication with the internal workforce as well as with the shareholders and external influencers. A good communication strategy provides relevant shareholders with proper information at the right time and uses the right channels. The communication strategy is important to show the necessity of the acquisition, its core values, and the justification for why the strategy being used is the one that best helps the company achieve its objectives. (Weber (a), 2013, p. 22-24).

4) Managing Corporate & Cultural Differences

Cultural fit is the common expression for the mismatch in performance from cross-border transactions. However, research has no consensus about the results of the interrelationships between poor performance and critical points for integration. Weber et al. (2013) point out that cultural fit not always is an essential part of the steps in the decision making process. Cultural differences should be considered early in the deal settlement in order to confront about certain issues in the beginning stages. The complexity of cultural integration shouldn't be neglected, but with an active management approach, specific training, communication, team-building, and a general awareness of differences, cultural integration becomes possible.

5) Human Resource Management

Studies on Human Resource topics are widespread and critical factors of integration have been identified. During post-merger integration, it is important to train and prepare HR staff on the upcoming challenges. Negative influences from upcoming integration issues can lead to significant fluctuation rates of the crucial acquired human capital, and this in turn leads to an

increasing mismatch between the premium paid for the target company's assets and the actual value. The increasing costs for HR issues offset the gains expected from synergies. Mendenhall (2005, p.70) points out that management teams in acquisition processes are focused much more on operational integration instead of personnel issues. To handle matters of HR and avoid demotivation he suggests a HR manager or a HR management team only responsible for personnel matters during the merger process.

To evaluate the success of integration methods, it is necessary to build a formal tracking process. This is important in order to understand influential topics on the process performance and to be able to define the belonging sources of issues. The complexity of such a procedure is only measurable through permanent assessment and systematic planning. Secondly, a tracking system supports the learning process of the company and is the basis for creating an internal knowledge base, which allows the company to rely on these insights in later processes and build a higher level of flexibility to react properly to different economic situations.

4.5 Interrelations

Historically researchers concentrated on pre-or post-merger analysis. Also critical success factors were introduced within one of these stages without considerations how they could affect the other process phase. The complexity of interrelationships between pre-and post-merger stages is of particular interest for optimizing success rates in M&A processes. To improve the success rate of mergers it is necessary to consider the links between both and include them into the early stages of the M&A endeavor. Recent M&A research has shown that considering relationships between pre-and postmerger acquisition approach may yield to a better performance. (Weber, Tarba Reichel, 2011). However, interrogational research that addresses the question; How can

interrelations between pre-and post-merger success factors influence the M&A performance? Is still insufficiently treated today. Integration of known empirical results into pre-merger processes is not taken into consideration to a large extent. The importance of integration based issues e.g. on cultural proximity, organizational framework, soft factors etc. is highlighted only by recent research on its surface, and its relevance for practice can be seen from many interviews with experts in this area, in later chapters. In recent studies from Weber et al. (2011,2013), one critical factor of success for superior mergers builds on knowledge of both strategic fit and organizational fit/outside factors like cultural proximity etc. and those factors are taken into account into the pre-merger process and post-merger integration approach. As early as 1991, Görsche mentioned a lack of strategic consensus between the acquirer and the target company's operative management as one of the causes of failure to realize expected synergies and the overall failure of the transaction in the end. The complex relationships and their subsequent externalities have not yet been examined. Executives should build an awareness of their existence and their importance for the success of the endeavor. Critical questioning of the own strategy, the objectives and the common approach during the planning phase leads to certain preconditions a target has to fulfill in order to fit into the company's requirements and support an optimized M&A project. The selection of one strategic partner in this process directly influences the integration strategies post-merger. (Gomes et al. (2013). A common example is the investigation of cultural differences between merging companies. This issue, however, typically is related to post-merger integration research. Only then is this particular factor and its impact on transaction success evaluated, in terms of performance. What is missing is the connection to the pre-merger stage and its interplay potentials. Specific questions such as how do the outcomes of cultural difference studies affect the target search, how can we integrate this issues previously in order to prevent or limit damage resulting from these

factor, how does this analysis bias companies' decisions, and which possibly superior alternatives should companies consider when looking for targets, help focus on the empiric research on success factors and its relevance for transaction performance is included into target-search process. To answer these questions, interrelations, instead of single success factors are of particular interest.

In the next chapter the basis for an optimized M&A strategy is formed by examining sources of value creation from empirical evidence. How companies tackle the premerger phase is examined, followed by the interviewed experts as qualitative data input, and, based on this, constructive suggestions on how this process could be optimized, specific weaknesses occurring during a merger phase, and how these are to be solved or at least mitigated by an integrated model approach. This includes proposals for actions to undertake, which result in superior outcomes during the process. These issues from both parties can be solved through success factors which are determined beforehand and strictly encountered throughout the whole procedure. The awareness that such relationships exist is the first step towards examining and evaluating them in further research. Based on this relationship building investigations between single phases, within this chapter a precise process approach for firms should be adapted that calrifies the backward introduction

5. EMPIRICAL METHOD

5.1 Collection methods

In this chapter, the empirical method will be presented. The thesis is based on a mixed-method consisting of qualitative and quantitative data. Quantitative data was taken from previously conducted research (secondary data), compressed, and solidified by qualitative data in order to evaluate the importance of the quantitative data from an experts view. The secondary data from other research was investigated in chapter 2 and is summarized in tables 1 and 2. The results from this comprehensive investigation affect the questions asked within the qualitative part of the data examination, which depict the primary data conducted from either semi-standardized expert interviews or written questionnaires for experienced consultants and people in management positions.

The overall purpose of qualitative research is to understand and explain underlying patterns and to interpret quantitative data in terms of the behavioral manner from the population investigated. The analysis is considered to be of an inductive nature. This means that specific findings were generalized in order to make assumptions and meaningful assertions about the topic. Qualitative methods are combined in order to make meaningful assertions about optimization methods and performance drivers (Hennink, Mutter, Bailey, 2010, pp. 55).

The qualitative data approach was chosen for two major reasons. First, a vast amount of quantitative data and empirical research is already available, even though this data is mostly focused on one specific influencing factor within the merger process. Secondly, the investigated topic of pre-merger optimization depends on a large scale on subjectively motivated criteria and executives' very specific individual objectives. This method is useful for answering "how and why" questions, which are of special interest in this context to understand the complexity of the

process and its potential (Hennink et al. 2010, p. 26). The underlying success drivers of the topic are too complex to be fully captured by quantitative methods. Therefore, the qualitative research, which is based on opinions, is used to explain the origins of the companies' performance during a merger process. (Ritchie, Lewis Nicholls et. al, 2013).

Qualitative research includes different approaches and disciplines such as observations, semi-structured, in-depth interviews, documents, and focus groups (Ritchie, Lewis, Nicholls et al. 2013). The data was collected in the form of semi-structured interviews and a pencil-and-paper interview. The combination of both methods creates a functional context based on examined data and subjective opinions. Furthermore, this allows for the combination of both the interviews with consultants and representatives from buyer firms and the survey conducted with representatives of buyer firms, which investigate the issues of pre-merger success from different points of view and help develop a comprehensive overview of certain patterns.

5.2 Interviews

The chosen method here was interviewing, because the overall research topic is explained by real life experience and opinions about the M&A process. The people and companies involved remain anonymous. The promise of anonymity made an open discussion possible and supports the valid disclosure of information.

There are three common interview approaches from the domain of psychotherapy research: open-ended- unstructured, semi-structured and structured interviews (Knox, Burkard, 2009, p.567). The semi-structured interview procedure was chosen for the conduction of these interviews. In this approach, a guide with open-ended questions based on the study's central themes is used as a checklist. This method allows the interviewee to develop their opinions

throughout the process of answering the question. As a result, they have the chance to add value to the collected data in the form of extra information which was not specifically questioned, unlike during a pre-printed questionnaire with closed questions. The interviewee is actively involved in open-ended questions, and the question order is flexible rather than fixed during the interview.

The reason for interviewing experienced persons from consultancies as well as responsible managers from acquiring companies was to avoid any perception bias from people who are only on the one side of the process. The focus was on building a comprehensive overview of the transaction approach. Additionally, acquiring data using this type of interview seemed to be most appropriate, as the focus group consists of highly experienced persons with background knowledge.

The interviews were conducted through nine phone interviews and one face-to-face interview. Interview duration was between 30 minutes and 75 minutes and the interviews answers were captured either by audio recording or by taking notes during the interview. The anonymized transcription and notes are displayed in Appendix 10.4. To differentiate between the statements and to refer to single assertions in the analysis, the interviews are labeled Interview A through G. (IA–IG for transcript interviews; NI-NJ, for notes taken from the interviews) The model provided in chapter 7, was based partially on these insights, and therefore the interviews are of high importance in order to achieve a comprehensive understanding of the process and its optimization.

5.2.1 Interview guide

A semi-structured interview guide was developed in order to focus on the same issues throughout the interviews. An interview with one expert does not necessarily include all questions. Questions were slightly adapted or excluded from the interview depending on the experience the

interviewees declared at the beginning of the interview. Interim questions, which are not in the general interview guide, are displayed in the Appendix. All interviewees were reassured at the beginning in the interview about confidential handling of their data. In return, I was allowed to audio record most of the interviews. The transcript and translated versions are attached in Appendix 10.4. The questions asked to representatives of consultancies/ management executives are listed below in example order:

Q1: (Experience)

- What is your level of experience with M&A processes, specifically with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is your level of process maturity of the M&A process (ad hoc, defined, managed, controlled, repeatable)?
- Does your company have an established organization for supporting the M&A process in all phases?

Q2: (Consultant approach)

- At which stage in the process is your consultancy generally approached?

Q3: (Consultant approach)

- Until which stage is your company mostly integrated into the process, and are there observable differences regarding different kinds of companies/ transactions?

Q4: (Opinion-based: Perceptions)

- Does your company have very specific views on:
    - The integration of an M&A strategy within the overall company's strategy?
    - What aims your company wants to achieve through the transaction?
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.?
    - How to approach the overall M&A process and its single stages?

- Necessary steps to undertake in order to achieve this objectives?

Q5: (Opinion-based: Motives)

- What are the major motives for M&A
- Are these motives dependent on different factors such as industry/size/organization structure etc.?

Q6: (Opinion-based: Performance)

- What are critical success factors during the pre-merger process and what are your measurements to ensure the adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- What concerns and obstacles are most likely to occur in your company that could hinder the successful merger?
- Do you think soft factors are a crucial point for success? (e.g human factors, communication, organizational culture, business environment etc.)

Q7: (Performance)

- What do you think about "timing" within the process?
- Is it better to speed up the process at the expense of quality of evaluation/planning; or to run extensive planning and possibly miss the opportunity?

Q8: (Performance)

- Do you consider available empirical research and its results in your target search process?
- What other sources of information do you leverage during your target search (analysts, web research, investment banks)?

Q9: (Opinion-based: Performance)

- At which stages of the process do you see potential for optimization?

Q10: (Process)

- Which attributes do you consider when screening the markets for adequate targets? E.g. size/organizational form/industry/strategic fit

Q11: (Process)

- Do you begin considering integration issues and risks in the pre-merger phase?

Q12: (Opinion-based: Interrelations)

- Do you think that individual stages of the pre- and post-merger phases influence each other? If so please specify.

5.2.2 Purpose of interview questions

The purpose of the interview in this thesis is directly connected to the examination of comprehensive knowledge about specific pre-merger issues, motivations, transaction approaches, and optimization potentials within the early stages, and supports the development for further optimization strategies in the pre-merger approach of companies. Generally, the interview questions are the same for both responsible persons from M&A conducting companies and for consultant experts. This makes it possible to compare different opinions on the same questions resulting from both parties. The interview questions were elaborated based on the literature review done in chapter 2 and the support from experts who outlined certain points of interest to finalize the guide.

Q1 first captures the experience of the interviewed expert and the exact range of his/her responsibilities within the studied area. Secondly, the stage of maturity in their process environment is queried to get a glimpse of the overall stage of the process and existing issues. This question ensures that the interviewed person has applicable experience in this area and can make reasonable statements in order to validate the model and advice provided in later chapters.

Q2 and Q3 are only used for interviews with consulting experts. Both questions ask for the particular integration part of the consulting firm and differences regarding industries and support. This helps us understand when consulting firms are approached during the process and get hints about the actual preparation of the clients company.

Q4 examines the current stage of available knowledge companies have when approaching an M&A process. The question covers perceptions about the strategy outline of a company, if there is consideration of and knowledge about alternatives, whether there is a general knowledge base on how a M&A transaction is approached, and which steps in this process are most necessary.

Q5 follows up on the motives for the M&A strategy. The purpose of both questions combined is to find a link/mismatch of motives and actual process knowledge and to define core issues which could have critical impact on the success of the merger.

The following questions, Q6 to Q10, deal with the process performance itself and its approach. In this part, there are specific questions that deal with the process approach, certain obstacles and risks during the process (time pressure), and how these risks were addressed. The answers to these questions are varied because they are very company specific. Q8 directly addresses the utilization of empirical research during the target search process, which is one of the factors especially in focus in this thesis. Q9 is an important question for building an optimization model, because it focuses on the experts' view of the issues. These questions support the building of patterns for the new model and hint at further problems and research topics.

Finally, Q11 and Q12 address opinions on interrelations between pre- and post-merger stages. Q11 examines the backward implementation of integration issues during the pre-merger stage. This question addresses the understanding of possible interrelations in the M&A process based on a specific example. Subsequently, Q12 is an open question in which the interviewed

expert can point to other examples of interrelations in his/her experience and give his/her opinion about them.

5.3 Survey

Furthermore, data was also gathered by a small-scale paper-and-pencil interview/survey to quantify data from the qualitative research. The survey compresses certain information on a quantitative level and combines them with qualitative methods; both approaches complement each other. The purpose is the generalization of findings as well as the diversification of further opinions from a broader range of affected persons and industries (Hennink et al., 2010, p. 55).

For this survey, the group of individuals (relevant population) included are men/women from top management positions in a company that already has dealt with merger and acquisition processes in the past. The participants, therefore, had to have experience with M&A-processes. This approach was chosen in order to gather further data from a broader set of people in management positions and to generalize some findings about the qualitative aspects of transactions. In addition to the interviews conducted, 10 people answered the survey. The companies and names of people taking part within this section remain anonymous as well.

Some examples of specific aspects asked about in the interviews include motives, approaches towards a transactional process, and the means implemented to complete a successful M&A endeavor.

5.3.1 Survey outline

The outline for the paper-and-pencil survey is attached in Appendix 10.3. The survey is separated into three parts. Part I collects general information regarding the company, such as the

country where its headquarters are located, size, and industry, as well as the interviewee's job title in the organization. This is to ensure suitability for participation in this survey. Part I is important for understanding the differences resulting from the following answers, which could depend on size or industry variety in the sample chosen.

Part II is focused on the motives and specific methods chosen when approaching the acquisition process. Interviewees provided information on the number of acquisitions undertaken, how they approached the transaction, whether they requested support from consulting firms, and the rate of success throughout all transactions. Additionally, they check all applicable statements regarding primary motives, measures undertaken, and main reasons for failure (if available). The impact of the second part is interpretative and focuses directly on potential methods of optimizing strategies in pre-merger processes. Question 2 in part II partly covers the strategic approach. Many companies, particularly in the small and midsized company sector, "trip up" on opportunities for transactions. In these cases, adequate planning and allocation of resources for the target search process is rarely done. Questions 5-7 are specifically connected with each other, as they give insight on actual measures undertaken during the process (hard and soft factors), as well as reasons for failure if there were transactions which did not generate the expected value. These answers are primarily helpful in understanding the behavioral patterns of the M&A process and to detect insufficiently approached topics during it.

Part III deals specifically with the success factors and concerns examined beforehand during research. The individual statements were evaluated on a scale of importance ranging from 1 (least important) to 5 (most important) and questioned persons also listed their top three indicators for each sector.

The third part examines on a detailed level the particular importance of different success factors and concerns that play a major role in the context of this thesis. Considerations are ordered by importance, and a “top three” list of categories helps us gain insight on existing core issues and identify the strengths and weaknesses from a company’s acquisition approach.

5.4 Reliability and Validity

Reliability exists when experimental results from a population sample are repeatable in other trials (Neuendorf, 2002, p.112). Interviewees were involved in many M&A cases. Reliability was controlled by either taking careful and neutral notes from interviews or the audio recordings which were transcribed and translated afterwards. The chosen two-sided approach from paper-written interviews and personal/phone interviews and the inclusion of consultants as well as company executives ensure the accuracy and completeness of information. The variety of sources allows for a comprehensive overview and makes it possible to find reliable assertions on patterns within the transaction process. Through the inclusion of senior positions only, bias was avoided and validation was increased. As M&A cases are typically of high concern regarding confidentiality, interviews were generally on general experiences for different cases. Specific insights on example cases are depicted only in the form of anonymized examples.

6. ANALYSIS OF RESULTS

6.1 Participant presentation

Interviews: Out of the ten interviews with experts I was able to audio-record and transcript eight of the interviews, from two more I made notes. One of the experts refused the approval of the interview within this work. Therefore the reader may find only nine interviews at the Appendix. 10.4. Six of the interviewed experts work within departments including an M&A background in their companies and they are in responsible management roles around M&A projects. They come from companies located in Germany and Austria. The other four interviewed persons come from consultancies from Germany and Austria with their perspectives on M&A projects.

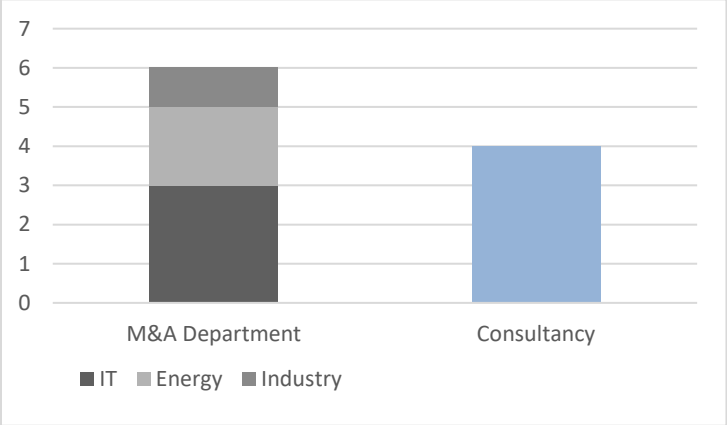

Figure 5: Background interview participants

Survey: Ten responsible persons from higher managing positions within companies with merger experience participated in the survey. Five out of them belong to companies with annual revenues over EUR 1B., and the other five belong to small-and mid-sized companies with an annual revenue between EUR 0-250M. Representatives from big-sized companies are from energy, IT/Software and other industries, the representatives from small and mid-sized companies belong to insurance companies, banks and other consumer good companies.

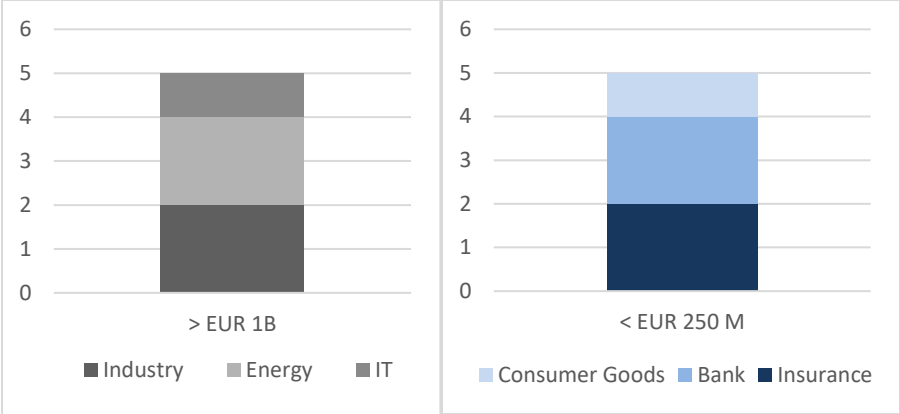

Figure 6: Survey participants divided by the size and industry of work background

6.2 Overview

The following part presents the results from the above explained methods of data collection in an aggregated, and partly, where necessary in a detailed manner. Generally, all interviewed experts have had many years of experience in the area of M&A. There was some diversity in the particular environment they worked in, e.g. some of them were acting more on seller, and some more on the buyer side. That implies different insights and different approaches towards M&A processes. Furthermore, the actual stages in which the experts were involved varied. Some of them had their actions embedded into the upstream strategy planning, others into the pre-merger, screening, or due diligence processes, and one expert from post-merger integration side was approached as well. The consolidated, varied experience and insights from these experts make an important contribution to this thesis and create implications for potential optimization strategies.

All consultants agreed that factors such as the company's size, industry, ownership or—very important—time constraints are influencing the approach of the strategic acquisition planning. Big, multinational operating companies generally have their own M&A departments, which screen the markets, possible targets, and competitors on a regular basis. Big companies regularly undertake chance and risk evaluations. Different opportunities are considered and

specific M&A strategy patterns are embedded in the company's overall growth strategy. On the other hand, smaller companies does not have the same level of process knowledge and available resources for M&A endeavors. Generally, interviewees from larger companies mentioned a higher overall percentage of failures than smaller companies did. Interview-partner H, who is experienced with both big and midsized deals attributed this difference partly to a motivation discrepancy between big firms and smaller ones. Smaller companies, often in the hands of family members, generally review their incentives more carefully due to the fact that they are risking their own money instead of sharing the risk with more stakeholders in bigger/listed companies. Also, from the survey with 10 participants, many answers from M&A industry representatives varied depending on the relative size of the company and the number of acquisitions undertaken. Time constraints are often considered to be very important in fast-paced industries in which rapid technology changes are common. In these industries, it can be important to be able to answer these market trends immediately and push an acquisition process through faster than in other, more mature industries. In these industries, therefore, it is even more important to have regular market screenings and market insights, in order to be able to adequately evaluate potential upcoming targets.

6.2.1 Maturity

Maturity of the process, was described differently. Some described it as highly standardized and mature. A mature approach is cited by IF or IE as a maturely implemented, experience-based process, with a steep learning curve in the past years due to many failures. IF highlighted the internal process guidelines, which big companies generally have. IA, on the other hand, described the process as ad-hoc particularly when it comes to the preparation of a suitable

criterion catalogue for the individual companies, which is underdeveloped compared to other more standardized stages of the process. In MNEs it was mentioned, that many processes are not standardized which involves the finding of relevant criteria e.g. and the implication of all important factors in this stage of the process. From SMEs often the comprehensive manner of how to tackle this project from the beginning, starting with the strategy outline was mentioned to be insufficiently managed. The following representation shows the level of maturity based on the expertise of respondent A.

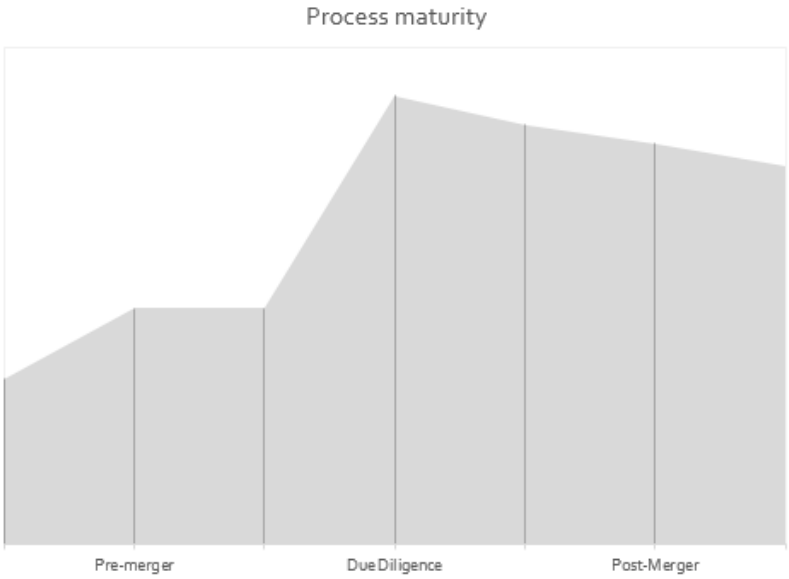

Figure 7: Process maturity M&A own presentation regarding to respondent A

6.3 Strategic Planning

M&A with a well-defined strategy only. This simple advice includes many single steps which should be further explained in this section. Many respondents had strong opinions on this matter. Strategic planning was considered very differently by the various interviewees. The experts agreed that the target search process for adequate target companies is definitely necessary and should be planned beforehand and systematically, but in reality, the process is rarely structured. It

was considered to be of the utmost importance to have the strategy ready first, before entering into an M&A process: “M&A follows strategy” (Interview E, hereinafter also referred to IE). The survey has high overall relative values (see table 4a) for the categories: “Clear definition of the M&A strategy” (4) and “Strategy and planning” (4.4), considered to be important success factors in a transaction. Even though this importance is understood by the companies, there were still issues with strategic planning and the involvement of M&A in such processes. Most mid-sized companies do not have a strategic plan setup in which they consider M&A as a real opportunity. IG mentioned that the process is still too opportunistic or on a too passive basis and should be transformed to a larger extent into an active strategic approach. This implies that target companies, which may look good at first sight and are a potential opportunity at a certain moment, are not necessarily embedded in the strategic outline of the acquiring company. This may result in hazards such as emotional bias towards a transaction by executives. Then no well-founded reasons are generated for buying the company. The strategic rationale, which is mentioned by five of the interviewed experts, is then replaced by a subjective opinion and is no longer based on objective criteria and strategy outlines.

6.3.1 Motives for M&A

The major motives for transactions are generally agreed upon, as seen in the interviews as well as the survey. In the interviews, the dominant motive was “closing gaps”, examining so-called “white spaces” in the company’s product portfolio and closing them by external acquisitions and investments in new technologies in a fast-changing environment. In case, that there are no internal capabilities available to fill the gaps, external growth through acquisitions of companies with the requested capabilities is a potential solution. Investments in new technologies, in a fast changing

environment was also mentioned 4 times in the survey (see table 5), focusing particularly on the objective of staying competitive in the operating markets and the exploitation of new markets (mentioned 9 times, table 5), which are dominating motives for small and large companies. From the interviews it also can be seen that many industries faced a change in their motivations. Previously, growth and market penetration as well as consolidation motives were dominant and often focused on the end-consumer (IF). Today, the central motives are less focused on pure growth incentives (IA/E), and the general utility of an acquisition must be justified and proportionate to its underlying objectives with much greater scientific control than in previous years (IF). This is a result also of the increased, strict quality requirements today for the justification of the strategic rationale and its accompanied additional value for the company. Motives can be biased by emotional involvement, some experts mentioned that there is some risk that motives may be compromised on their objectivity particularly with emotional involvement of smaller firm's executives (IG), on the contrary other experts said that smaller companies' executives are more often motivated entrench their power in the company. (Notes from Interview H-J, hereinafter also referred to NH). However, these motives were not clearly mentioned by the majority of the experts. The comprehensive view suggests that in the fast-paced environment today, companies are quite aware of strategic rationales; the strategic reasoning shows up at least in the foreground, but whether there may nonetheless be emotional bias is up to the executives themselves to recognize.

6.3.2 Experience

As stated before, experience is one important factor when it comes to complex transaction projects. Respondent A mentioned the "Black Swan" model, which is directly linked to gained

experience. The Black Swan model describes an extreme and relatively surprising event with negative effects, which occurs in a certain phase. These risks are largely unknown beforehand and therefore not considered realistically. It is only through facing the particular risk that awareness of it is gained and considered more cautiously in the future. Therefore, this model represents a surprising event relative to present knowledge of the actors (Aven, 2013, p.44). The significance of the aggregated accumulation of experience was mentioned particularly by respondents A,K and F. In recent years, many MNEs have worked on establishing internal knowledge platforms, templates, standardized processes, and internal learning systems. Experience is clearly a factor not embedded in a particular stage, as it affects all phases of the M&A process. It overlaps the overall process because potential upcoming risks can only be considered pre-merger if some previous experience with these is already available and understandable (IA). IF made many efforts to raise the company's experience in past years. He mentioned a professionally-regulated process in which, due to the fact that many failures had happened during transactions in the past, guidelines and structures were introduced. He highlighted the experience-based process with a steep learning curve and an ongoing process of gaining experience. Another respondent said that there is an approach using an internal experience allocation system, based on which, responsible persons with a mature level of experience on a particular topic can be found and reallocated to the relevant acquisition process if necessary. Experience also plays an important role when it comes to the following leadership strategy. Respondent F and K explained that when acquisition plans include the old management, they often need support on integration issues from the buyer side. These coaching tasks for the new/old management and the integration teams only can be done with a high level of experience on similar cases. IF noted a time period of 100 days of attendance from a responsible M&A person supporting the project internally. In summary, it can be said that some

companies focus strongly on gathering internal experience and building capacities with advanced models in order to increase internal experience levels, while others ignore experienced learning to a large extent and neglect the importance of this interrelation within the process.

6.3.3 Alternative considerations

When the experts were asked about considerations of alternatives, their answers were surprisingly different. The decision about "make or buy", generally was based on incentives, which were related with external growth. (IC, ID, IE). But alternative strategies for external growth such as alliances, partnering model, Joint Ventures etc., were not necessarily considered in-depth. For example, IE mentioned that real alternatives weren't considered at all, because control is the focus and therefore 100% transactions were done in order to own the target. Other experts mentioned partnering especially or one to two particular alternatives and underlined the importance of alternatives, but did not necessarily reflect the variety of them in their explanations (ID), or they were not considered equally. One said that all alternatives are considered with the same significance and the alternative approaches are tested for plausibility for every individual project.

6.4 The early phase of the target search

It became clear during the interviews that there is a gap between the views of experts from the management of acquiring companies and experts from consultancies on how firms tackle the early phase of the target search process. When a decision for an acquisition project is made, most named approach measures from the survey were first to undertake an in-depth analysis of markets, and growth potentials in the industry in which the acquisition is situated and the formation of an M&A project-team. More seldom, measures have been taken to plan and allocate resources, and

to plan a first post-merger integration roadmap (see table 5a). That in turn fits well with the evaluation of cultural issues as one success factor. The relative importance is the lowest within the sample with a value of 3.4 (see table 3a). Generally, although participants evaluated to have a strategy and an adequate planning ready as most important (table 3a) and particularly undertook measures of analyzing of industry, markets competitors etc. they did not include planning for the post-merger integration or relevant upcoming post-merger issues to the same extent. Furthermore they did often did not consider integration failure as source of the overall project failure (see table 5 and 6).

6.4.1 Process approach

From the interviews with responsible persons of a business, the common view was biased towards a more active search and higher integration from the beginning. Interviewed consultants, on the contrary, pointed out that most companies rarely enter the transaction process with a planned target search approach based on a strategic integration of processes within the company. Notes from respondent H (NH), show that a professional approach in midsized companies particularly is an exception and the project is mainly entered opportunistically without strategy considerations beforehand. The process approach is considered to be diverse among different companies. From the survey, all companies with more than 1 billion Euro turnover mentioned an active approach at least to some extent. From midsized companies only one emphasized an active search for M&A transactions, but five of the 15 total results were for an opportunistic approach towards M&A from all companies. A passive or opportunistic scenario often implies less research on the industry and other potential targets in the markets (IA). Some of the companies do have a flexible approach due to their mature screening process, which is done on a regular basis. On the other hand, though,

criticism was expressed about the fact that the process approach is often top-down (IC), rather than a more bottom-up approach, including either the M&A departments, which often receive offers from target companies and might miss the opportunity to communicate this topic adequately with the operational side, or the operational business departments. They know the industry and requirements best and may know of particular selling motives of relevant target companies.

6.4.2 Evaluation and Selection

Screening, evaluation and finally the selection of the right strategic partner is the core process within an acquisition. Based on the strategy done within the first step, the actual screening and evaluation follows a regulated professionalized process (IE). Respondent H mentions on the contrary that mid-sized companies need attendance during the complete process, starting with strategy development and afterwards the complete set up of the screening and evaluating process is coordinated with management executives. Even though the answers with regard on the overall process of evaluation, managing the funnel and the decision for one target in the end, are always reflecting the same process procedure (IA, IE, IF). The varying influences are which criteria were involved into the process and its individual recognition as important for the performance outcome. Most of these criteria are examined to have an interrelated influence between post- and pre-merger stages and were considered as critical success factors. Therefore a representation of most important factors on which targets are selected is given in part 6.5. However, the wrong selection of a target as reason for failure in an M&A process was only named three times out of 21 responses within the survey. Execution failures, integration failures and failures from insufficient planning were equally considered as reasons why the transaction did not lead to the expected outcome (see table

6). Especially mentioned to be utmost important for an adequate evaluation followed by making a valuable selection is the dependency on correct data.

6.5 The critical factors for success

As described before within the standardized process of an M&A target-search process, the scope for individual evaluation criteria is broad. Most of the following factors, were mentioned in any way by all interviewed experts with diverse but strong opinions on it. In the majority of cases these criteria were considered as very important, but to the same extent they were often highlighted as not properly being integrated into the process so far. A reason could be their unconditioned necessity being threatened as interconnected factors within the process and the company's shortcomings in dealing with the complexity of these issues.

6.5.1 Knowledge is key

Detailed knowledge and data plausibility as foundation of evaluation of the target companies are one point, highlighted by all the interviewed experts as a critical issue, at which the successful endeavor is at risk. From consultancy perspective, the respondents disclaimed their relevant process and market knowledge for their clients as one of the most important services, they provide (NH). They close the gap of lacking knowledge within mid-sized companies mostly but are also integrated in multinational companies, which already have a knowledge base. (IF). Know the industry! Know the M&A process steps! Are summarized statements by the experts (ID, IA, IC etc.). These two main strands require, whenever knowledge is not internally available, the approach of consultancies or branch experts IA wants more detailed questioning before beginning due diligence with a company. This requires an increased justification for first entering the due

diligence process and then executing this process with a higher probability for a positive outcome. This in turn is based on the right questions being asked in advance. In order to ask the right questions, you have to know about certain risks which could occur, with the individual target, in the individual target's industry, as well as during M&A transactions in general. Another expert mentioned the absolute importance of in-depth knowledge of the industry the target is operating in. This implies approaching branch experts internally or externally when needed. This issue is also reflected in the fact that knowledge sources always involve experts—scene talks and the network as such are recognized as qualifying assets. It is also interesting that in terms of knowledge, qualitative knowledge is more important than quantitative (IF). In the survey, the success factor "achieving the right price" gets the highest overall value of 4.4 (see table 4) however, the participants do not care about having a "lack of knowledge about the industry or competitors." Considered as an obstacle, it only receives a relative importance of 2.3 (see table 5), which is the lowest relative value within the survey. Objective knowledge supports the strategic rationale building and helps companies avoid falling into the reverse hostage trap. (IA)[7] Related to this issue is the learning curve resulting from the knowledge already gained. Whether or not companies have competence centers or other platforms in which they store their experience from previous transactions, best practices, and upcoming risks (IF etc.), they often seem to neglect to build such a knowledge system (specifically for M&A topics) in order to develop the own approach. This is one of the topics recommended for further research. Templates with specific milestones and concepts are partly available but generally occur more in bigger companies.

[7] See paragraph: emotional Bias

6.5.2 Soft factors

During the interviews, experts often specifically emphasized the importance of the so-called “soft factors”. In research, these are often considered to be neglected factors in the pre-merger M&A process, but from the experts’ experienced view, they often result in failures afterwards during the integration process if they are not considered adequately in advance. If neglected in the pre-merger phase and the target-selection these factors are mainly source for problems during the following post-merger integration. Respondent H and I both highlighted the comprehensive spectrum of soft factors and its importance on successful endeavor. Such as peoples’ commitment, cultural and governance issues. H says, that today is still a limited involvement from soft factors even though the relevance is clear. In this thesis as “Soft factors” declared topics were, overall communication strategy regarding all parties involved, but especially regarding to employees in both the acquiring and the target company, cultural integration issues, incentives designed to maintain the motivation of workers, corporate governance, and a clearly visible strategy-outline for all parties involved. Questions like “How is the individual organization structure fitting into my company?” are important. The acquiring company has to establish a commonly agreed-upon position towards the question, “To what extent are we ready to change ourselves in order to integrate the target successfully?” (IC, NH). Every target within the funnel of the target-search is generally evaluated on its strategic fit but the criteria often do not include factors behind rationalities. Behind these rational reasons e.g. new technologies etc, there are always people with particular knowledge, skillsets or crucial customer insights (IH). These talents and their commitment, are often a substantial part of the target’s business model, and even though this model is of utmost interest for the acquirer, the merger can fail when mismatches in soft factors

between both companies are too large to cover.[8] Proper communication means the involvement of employees, the project management team, stakeholders, the press, and other relevant parties, based on a communication concept created in advance. (IK/NH). The transformation of the joint vision and positive emotions can make an important impact on the success of the transaction project. Good communication of goals, objectives, but also potential risks from the beginning can promote higher commitment and increased motivation. Insufficient communication, on the contrary can lead to negative performance (IK) Respondent H also mentioned the communication between the consultancy and executives management as utmost important, in order to support the client, imaginations, strategies and objectives must be defined and understood in the same way on both sides.

6.5.3 Leadership structure

Although it generally belongs to soft factors, the ownership structure is mentioned as a stand-alone argument due to its relative importance as stated by almost all experts. The call for an adequate proposal of ownership structure for the time after the merger process, is a decision with the imperative need of being clarified before the transaction is closed. Therefore it can be said, that this issue is clearly interrelated between the selection and evaluation phase pre-merger and the company's integration post-merger. The leadership/ownership structure is often considered as certain risk. E.g. interview-partner I mentioned it as quite important and interview-partner A

[8] E.g. Daimler Chrysler case, 1998 the merger was completed only eleven months after the first meeting between Schrempp (Daimler) and Eaton (Chrysler). Cultural integration issues were insufficiently considered beforehand, many employees left the merged company, huge gaps within the business practices of both companies and a lack of governance were claimed to be responsible for the failure (Stadler, 2004)

enhanced, that particular risk can occur from the ownership structure and that top management competencies of the new company are very important for success. An internal process ensures the capabilities. In case of missing potentials, coaching for the new management is undertaken in order to avoid inabilities of the new management. In an ideal case, IB argues, before the negotiations are closed, zero concessions should be made to employees or executives of the target company. Concessions only make the integration process much harder for everyone involved. (IB). The leadership structure and a clear definition of responsibilities increase the level of stability during the project and also decrease uncertainties and misunderstandings about who the authorities in charge of decision-making are. The concept of leadership and clarification of other responsibilities are of higher importance in the eyes of IF than quantitative evaluations of the company Leadership problems will arise sooner or later anyway in the process. Therefore, assumptions and preparations for avoiding upcoming issues can be implemented beforehand and communicated as early as possible with the target's management (IH). When the old management is integrated in the new emerging company model, as was highlighted twice, special management training or additional attendance of the acquiring company's M&A sector is requested in order to make executives in the new company "fit" for change and integration tasks. One expert even said that when the target's business model is very interesting but highly dependent on its ownership structure it is even possible to step back from the merger opportunity because then certain concessions and agreements would need to be made beforehand and these could lead to difficulties later, often only solvable through the investment of large sums of money. IF also clarified that during consideration of alternatives, the closing of any new configuration is way easier than the possible separation later, if both parties want to follow different paths again. Also, this kind of agreement must be considered before making the final deal.

6.5.4 Emotional bias

M otivations based on behavioral or personal interests such as entrenchment, strengthening power, ego, etc. are more known in literature and research more from managers of multinational companies. However, even though the experts did not agree on whether SMEs (small and midsized enterprises) or MNEs (multinational enterprises) were more likely to exhibit bias, from the interviews in NI/J it becomes clear that personal embeddedness often depends on the process stage. The more advanced the transaction process is and the more resources are already consumed by the project, the deeper personal involvement and its associated loss of an objective view in terms of the strategic rationale becomes. Respondent H mentioned, that one of the most important services provided for their clients, is the external view on a project, which is brought by approaching the consultancy. This plus external knowledge and experience provides companies to become personally involved. Overconfidence of management is one source of these kind of problems. Hidden issues in the balance sheets disclosed during the process are, as a result, often not considered to their full extent, inconsistencies in statements are disregarded and potential negative outcomes are neglected. This is the reverse hostage syndrome trap, mentioned by one expert (IA), and also described as simple emotional bias (IG/IB). With the increasing attractiveness of a target due to initial positive evaluations and a good strategic fit at first sight, personal involvement could creep into the strategic outline so that something called “deal heat” occurs. This makes it more and more difficult to back away from the deal even for the most rational reasons. The reverse hostage syndrome then forces the acquirer to make concessions that are regrettable or even destructive after closing the deal.

It was observable from the data that even with highly mature processes and decision rounds as well as reviews, there are still some discrepancies between the desired objective and actual behavior. At this point, firms have already invested money and time in the target search and even with consultant managers advising a ‘no-go,” the responsible management on the company site sometimes decides to proceed (NI). The subjective view of targets is most often regarded as a critical issue for smaller companies and therefore important for them to solve in the future. Big multinational corporations do have some control measurements like the Four-Eyes Principle (IF), clear assignments of responsibilities (IH), or the segregation of duties, in order to avoid emotional bias. Most experts have already had experience becoming biased towards a specific target and have developed their own techniques to deal with this problem (IA). The process needs to be objectively measurable on all relevant factors throughout all steps to avoid selecting the wrong target and to increase the success rate for transactions.

6.5.5 Integration concept and interrelations

All above-mentioned success factors play a major role during the integration from the view of experts. Furthermore these factors are not situated only in one stage, but interrelated within the overall process. Interrelations were considered to be of lesser importance by IB. From the interviews, it becomes clear that experts in the M&A sector see high potential in the process of the implementation of integration issues into the pre-merger process. Expert H pointed out, that integration topics are often considered too late during the process. Existing insufficiencies are dealing with the question: How can I integrate these integration topics in an efficient way? For example, in the eyes of expert F, an integration concept paper already set up before the closing which includes responsibilities for different tasks and key figures is such an interrelation from a

practical angle. The concept paper is including an organigram with responsibilities for different tasks and key figures. Some interrelations with integration are already considered by some companies. One example is the definition of a specific acquisition type already in the strategy development. Based on the individual needs of the business department which wants to further grow externally, the type of acquisition, fitting into this particular need is defined. So-called "tuck-ins," big, asset-based acquisitions, partnering models, etc. are considered based on the individual needs of the business department, which wants to develop externally. Based on these decisions, the actual relationship between the type of acquisition and the target-search process is displayed by a clear image of the integration model with focus on leadership structure. This integration outline allows the acquiring company to define responsibilities for specific tasks, from which they know that they will occur, as well as considering already in the pre-merger stage certain risks, which may only occur with this specific type of acquisition. Some companies already do this, like experts confirmed (IF/IK). "Tuck-ins and small, technology-driven acquisitions usually require some stand-alone time instead of a full integration into IT and operations and financial consolidation. In order to maintain the business model and the intangible assets, that were the initial reasons for the acquisition of the target companies, the small acquired companies remain responsible for operational decision-making (IA/ IK).

6.6 Potentials for M&A success rate optimizations

M&A is described as a balancing act between professionally structured processes and experience and dynamic flexibility. Finding the golden path of these two complementary strands is the challenge for optimizing the probability of success. Various approaches for optimization were defined. Some of them specifically mentioned the pre-merger process with respect to

methods like planning, designing, implementing, and maintaining internal systems to ensure a higher knowledge level before entering the due diligence phase and therefore justifying the target choice. 7 of 21 responses to the survey mentioned the failure of planning and the wrong target choice as reasons for failures in their acquisition processes. (IA/H/B/F). Others highlighted optimization potentials regarding the state transition and integration during the post-merger stage, based on improved concepts such as previously-defined responsibilities and tasks and the location of possible upcoming risks associated with the target acquisition (IF/H). The earlier involvement of integration topics was mentioned also by respondent H, who criticism the too late and inefficient considerations on integration topics. It was also said by H that further research on these interrelations must be undertaken in order to understand influences and to build optimization strategies.

Using an increasingly proactive strategy instead of answering to opportunistic or passive approaches by firms makes the company more flexible and shifts the balance of power towards the buyer company (IG). Generally, individualization is important in this process, however, standard evaluation on a criteria catalogue drafted for different models could be another topic to improve.

7. OPTIMIZATION STRATEGIES

7.1 Approach & Objective

In order to make an impact and optimize certain issues in a process, it has to be clear how and where exactly the process-interfaces are that have to be approached in order to improve it. During the interview with the experts, it became clear that there are two general starting points. First, the backward integration of relevant information from the post-merger integration stage into the pre-merger, and second, the involvement of critical issues from the due diligence phase into the target-screening process. These two key components were identified as critical in today's market. Interviewed experts said that multinational companies at least had drastically improved their backward engineering of integration issues into the due diligence process during the last 10 years, and some confirmed that they were also working on concepts for how to implement concerns in later steps into the initial target-search. In this paper, the objective lies in the optimization of decisions made before entering the due diligence phase, therefore only the red arrows below describe information flows which are directly coupled to the "go" decision for an in-depth analysis of the target.

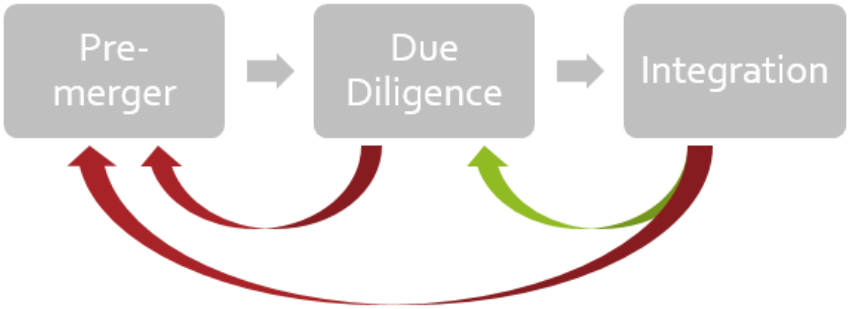

Figure 8: Backward integration from post-merger into previous stages

The improvement of this phase minimizes certain risks for failure of the project at the same time, specifically, the impact of developing superior target-screening within the overall process increases the legitimacy of entering the due diligence phase for one individual target and reduces

the risk of canceling this due diligence due to neglected issues. It keeps the company from stumbling over integration issues coming up during the post-merger integration, and encourages companies to build an internal knowledge base and a learning platform for M&A. In the pre-merger target-search, we identified four parties which carry potential risks and are of particular interest in this stage. These groups and their risks are:

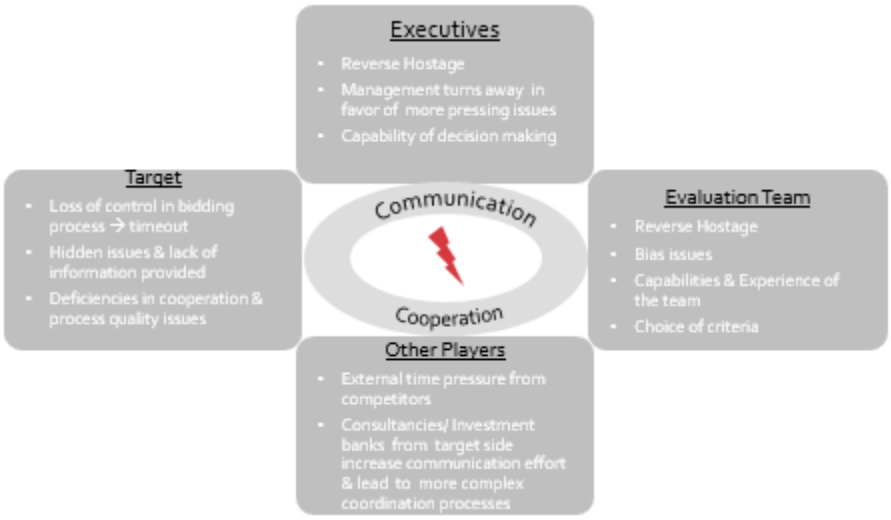

Figure 9: Pre-merger stage: participating parties and individual risks

Only two groups, namely the evaluation team and the executives, are internally controllable. Risks arising externally, e.g., from increased time pressure due to the competitors approach and/or a bidding process are of less interest because they are not fully controllable. The focus lies firmly on the evaluation team and its target selection process, with the objective of improving this selection procedure and minimizing risks.

7.1.1 Screening for Success

This implies including the target-search process in the organization's future strategy, building a knowledge base about optional targets and industry trends for further acquisitions,

keeping this knowledge base up-to-date through regular market screening, and facilitating acquisition strategies for any future endeavors.

The challenge of finding an adequate target comes along with the decision for an acquisition, after the rough planning period, when it is necessary to transform the strategic goals into consistent criteria for the target-search. It is important to understand key industry dynamics and influencing trends in order to optimize the target search and find optional candidates for transactions. Evaluating the targets with a structured, systematic approach that refers to determined criteria was often mentioned to be very dependent on the company and situation and therefore difficult to concretize beforehand. Hence, the rough dimensions of the criteria should include an estimated strategical fit between acquirer and target, as well as the market potentials in which they are positioned. To guarantee a comprehensive overview and to avoid failures of M&A due to insufficient in-depth target analysis, companies should ensure enough time and a unified analysis to compare targets on a detailed level. Strategical fit describes the degree to which the acquiring firm and the target firm exhibit high synergy potential. (Gleich, Kierans, Hasselbach, 2010) The previous definition of key search parameters for the precise target search process is a crucial point in the pre-merger process. Based on those key parameters, possible targets are selected and considered as strategic partners for the future. On the one hand, the internal focus defines the strategic fit. On the other hand, the external focus on the particular market in which the target is embedded defines the external growth objective. The practical evaluation consists of quantitative and qualitative criteria, which are displayed in more detail in chapter 7.5 with the model approach.

7.2 All-encompassing process view

To increase the probability of success for the transaction, the strategy should have a comprehensive approach integrating different stages, be based on a particular M&A strategy, contain an approach for learning and developing during the process, and build M&A competence for future transactions.

Figure 10 below shows the comprehensive M&A transaction cycle based on the permanently evolving process competence. With each transaction undertaken, the level of competence increases in the company. Individuals' experience increases, the process structure becomes more advanced, and more risks are understood. Through this structured process, the overall transaction time is shortened and performance success improved. (Boos, Heitger, 2005, p.88). In order to achieve higher maturity in the process, an internal learning process is necessary.

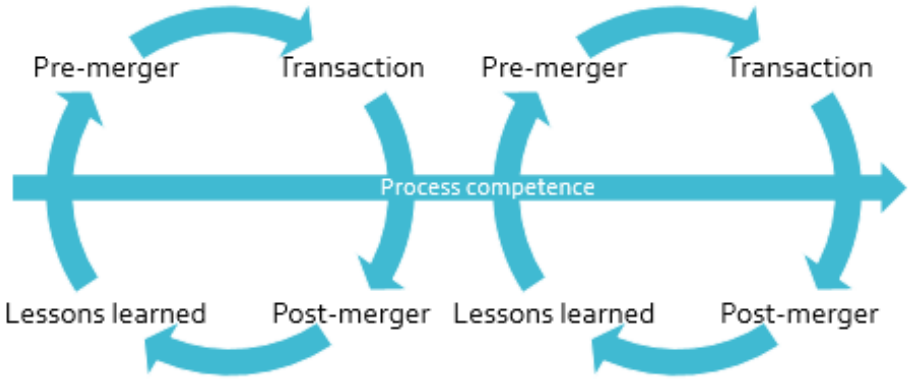

Figure 10: M&A performance pattern (Boos Heitger)

The model provided here is reminiscent of the kind of agile project work circles coming particularly from the area of software development. During different "sprints," the project is separated into smaller projects with permanent reviews and lessons learned during the process. This approach is introduced here for companies' developing processes, and can be separated into different sprints, which in this case are the individual mergers. It has been shown in studies that

companies increase the probability of success in their transactions when they conduct several transactions and start with small ones. Once-in-a-lifetime mergers generally do not result in the levels of value creation expected. The most successful companies are those that buy systematically, not only during merger booms, but also in times of crisis. This learning process allows companies to react more flexibly to varying challenges during later mergers. Regular market- and competitor-screening in line with the evolving company strategy develops in-depth understanding of the processes and principles needed. Internal information management and a knowledge base is thereby developed, and can be used later.

This higher experience level supports the overall process when it comes to inquisitory planning and considerations of success factors, which were previously dealt with in the post-merger stage, but now should be considered early, before the deal is settled.

7.2.1 Considered phase transition

Based on the expert interview analysis in chapter 6, the following presentation displays interrelationships between the pre-merger evaluation and selection phases and the critical factors identified by interview respondents. As seen before, several soft factors, such as communication, leadership structure, organizational integration and integration concept building, are factors which were mentioned by the experts as important to consider earlier. (They were not necessarily considered early in current projects). The experience explained above is made during the whole process and supports a company with its strategy outline and pre-merger stages as well as with integrational issues. One further comprehensive interrelation is the decision for an actual type of acquisition early in the strategy phase and its integration concept for the actual integration after the transaction. Further integration concepts are based on the pre-selected and evaluated targets

and are therefore involved in the process with pre-selected targets on the long/short list during the pre-merger stage.

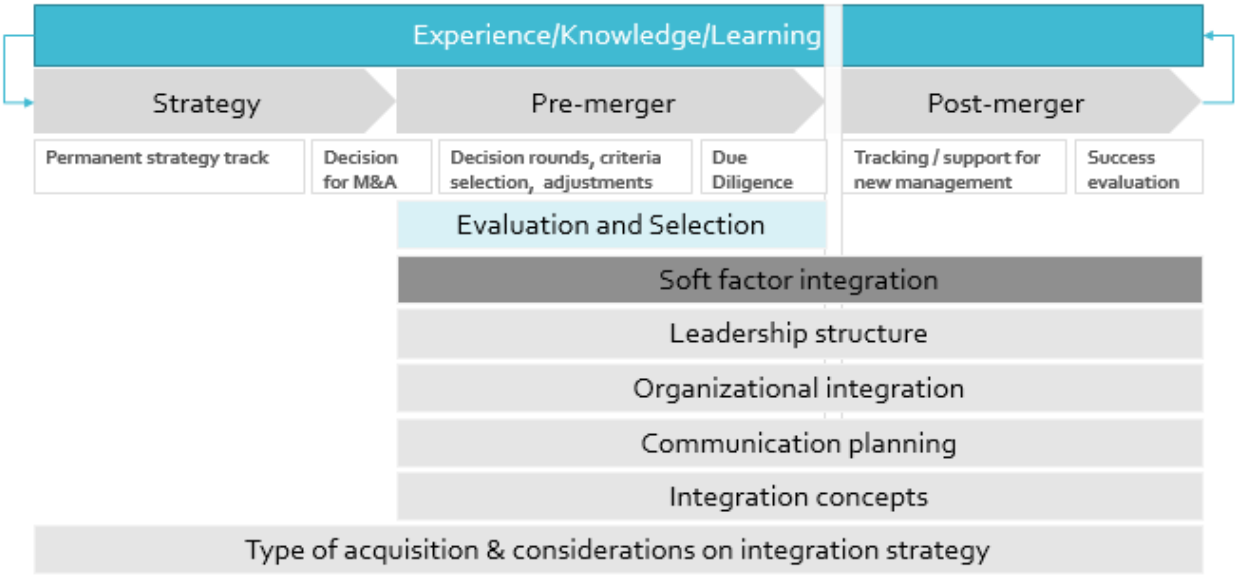

Figure 11: Interrelated M&A process (own presentation)

7.3 Tackling projects actively

This starts with a proactive approach towards a target search. Active screening for targets based on defined criteria and an already-created strategy ensures that, as long as the target company was not interested in selling the company up to this point, there are no other bidders and the risk of losing the bid during the process is decreased. This often results in lower prices, compared to bidding processes with more bidders. Another important factor for companies is time pressure. With a proactive approach, this pressure is less severe than with passive attendance. These factors, as highlighted in the expert interviews, are a first implication of companies rethinking their strategies. For the later processes, a differentiation is made between the planning, searching and screening process and the evaluation of targeted candidates for the transaction..

7.4 Backward integrated planning

Chances for success are improved significantly by strategic and systematic planning beforehand. This means an evaluation of alternatives and the proactive decision-making process. Managers from operational departments are often not integrated during this process, and therefore decisions leave out indigenous knowledge and priorities about operational company functions. These functional managers have superior in-depth knowledge about their departments, and can estimate potential arising costs and realizable synergies. Second, the inclusion of these people can increase the overall commitment and motivation of the managers and workers from these departments, since functional managers generally have a deeper relationship with their workers than the top management does (Weber, 2013, p.15). If there are no guidelines at all within the company, it behooves them to consult experts to support the process in the very early stages. Interviewed experts from consultancies pointed out that their experience in transactions can be more valuable the earlier they are integrated into the procedure. A concept paper which explains many critical issues beforehand, not only in pre-merger but also for issues arising from post-merger integration, promotes early examination of potential risks arising with different target firms.

7.4.1 Interrelations – Planning & Integration Strategy

Mendenhall (2005) suggests four integration strategies, characterized through the grade of implementation. The level of integration is company-specific and relies on size, relatedness of the market in which the target company operates and the strategic intent of the acquirer. From interview C for example, the approach of a multinational company with lot of experience in the strategic transaction environment is to leave small companies largely independent in the early phase after the transaction, with minimal integration to avoid destroying intangible assets that they

paid the premium for. In this case, there is no in-depth integration from day one. Other experts (see interview E) who also belong to multinational companies mentioned the importance of speed during integration processes, and point out that there is a specific action plan for the first 100 days after integration. It can be said, though, that the integration strategy is dependent on the company's opinion of how the acquired assets may result in the expected value generation. .

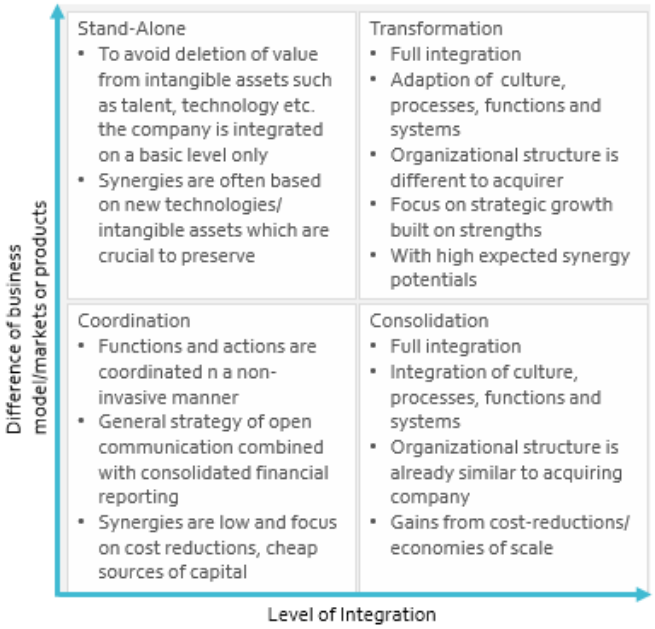

Figure 12: Own presentation based on ideas from Mendenhall (2005) and interviewed experts

7.4.2 Advanced execution

It is clear from the interviews that there is an advantage in integrating a target company later, because fewer concessions are made to the management of the target firm. This avoids serious issues during the post-merger integration. Therefore, the objective for the acquiring firm when entering into negotiations should be to avoid predetermined concessions like later positions/compensation packages/bonuses, etc. Two of the interviewees made clear that this could interfere with cultural integration and the integration of so-called "soft factors". For the personnel, it is often unclear what the basis for these packages are and therefore incomprehension or envy

may arise. In case of maintaining the old management for integrational tasks during the merger project, experienced people must be available in order to support and coach the new management for these upcoming tasks. If the capabilities of management are not sufficient internally, both interviewed experts in companies and responsible persons from consultancies agree that it is necessary to consult external experts with the important knowledge and capabilities. As mentioned above, gaining experience is part of the learning process a company is going through with every transaction undertaken.

7.5 Model Proposal

In this chapter, a first model framework for a more standardized and better-applicable screening process will be made. Based on the examined factors of success resulting from the empirical research in chapters 3-4 and the experts' insights in chapters 6-7, the model shows potential ways to increase the success rate of M&A transactions. The method of dealing with strategic objectives as part of the search process can be partly standardized and the workflow adjusted accordingly. The evaluation process, on the other hand, strongly depends on the individual assessment scale and the selected criteria, which are different for every single target search process. In order to develop a formal screening process, the combination of performance factors that are generally used within the target-search process are integrated. However, with regard to previous empirical evaluations in relevant research, positive performance drivers are only involved as criteria that improve the strategic fit for a target. Secondly, concepts to consider for interrelations between the stages, with reference to experts' knowledge, are integrated into the screening process. The new model promotes a complementary, coherent, and coordinated approach and enhances the target selection.

1st Optimization approach

The model is embedded within the less mature pre-merger stage (see figure 7), beginning with strategy development and ending with the entrance into the actual due diligence procedure. The objective is to compress relevant information to a larger extent into the pre-merger stage in order to build a solid foundation for sustainable target decisions, and to enhance justification for entering the due diligence phase. As a result, the improved knowledge base in earlier stages increases the chances of successful due diligence and results in higher levels of successful deals and their integration. The approach is very company- and industry-specific.

2nd Model explanation

I suggest a three-stage approach, as you can see in figure 15 in the Appendix. The approach looks to enhance the target search from acquiring firms and optimize strategy from the earliest stage of a company's M&A strategy.

Stage 1: Depending on the M&A experience of the company, a first step to undertake, especially for SMEs[9], is to develop a comprehensive enterprise strategy. This stage involves the strategic implementation of M&A in the company strategy—in particular, the evaluation of gaps within the own product portfolio. As one of the most important statements made from the experts goes: "M&A follows strategy!" (Interview F). This approach involves focus on structured and regulated templates. It is absolutely necessary to understand the market trends: its growth, future

[9] Experience-based insights from interviewed experts in this sample point out that M&A experience often depends on corporation size; there might be other SME companies that already have an M&A strategy.

opportunities, and other players in the market of the target's environment. The outline for the future strategy should include M&A considerations and an active approach towards markets, competitors' trends, etc. Building an internal knowledge base has two major advantages. First, it is crucial in order to access in-depth knowledge about the industry and its players for further transaction considerations. Second, it supports the company when facing an opportunistic approach by a seller company. It prevents the company from falling into the acquisition trap by freeing up resources that were previously required for an often insufficient, fast-paced screening process, and it enables the company to make more rapid, qualified decisions based on a higher level of relevant information.

Stage 2: In this stage, the level of strategic fit, based on empirical results from chapters 3&4, and insights from experts interviews from chapters 6&7, is developed. Based on theory and combined with the practical experience from numerous undertaken projects, the developed concept combines quantitative and qualitative parts in terms of a standard evaluation. Proper information and its evaluation are keys for M&A success. The acquiring company must be able to define strategical advantages and synergies from a merger, with all potential targets screened, and be able to measure those. The fit must be in line with future objectives and the outline of the overall strategy plan. If there is a lack of knowledge, experts who have particular in-depth insights into this industry, and therefore probably a deviating evaluation of targets, should be addressed. Both can be measured by consistent parameters for all possible target companies within a single target search. The following matrix (Figure 13) shows an exemplary classification outcome for a target-search process. In this first matrix approach, T1-T10 display potential targets based on their evaluation of qualitative and quantitative criteria. All targets are evaluated with coherent measurements for both dimensions, and the outcome is the intrinsic strategic fit between company

and target. In Table 4 in the Appendix, an exemplary schema for the evaluation of qualitative and quantitative evaluation is provided showing the importance of the criteria being examined, which can having a positive impact on acquisition success rates.

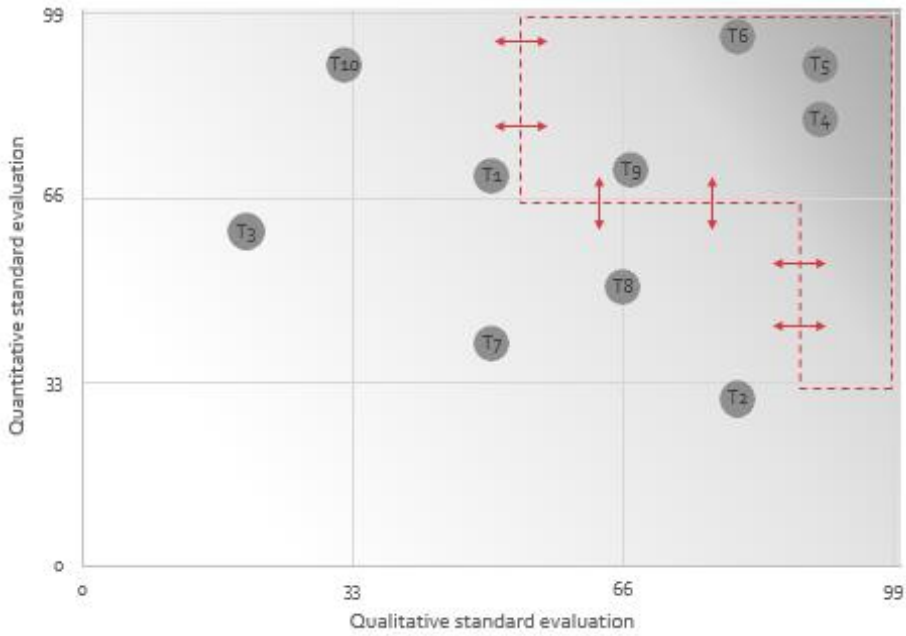

Figure 13: Strategic fit of potential targets with higher importance on qualitative evaluation (own presentation)

The target companies are located between 1% and 100% strategic fit within the matrix. Through a fixed scale with separations at 1/3 and 2/3, the matrix can be zoned into different segments of strategic fit. The further the target is to the upper right corner of the matrix, the better the optimal strategic fit resulting from both evaluation dimensions is. The objective of this matrix is to summarize the evaluation of the strategic fit as a more objective approach while still including qualitative criteria, and to avoid emotional bias when identifying potential targets. Depending on the internal prioritization of quantitative or qualitative factors, the target selection from the matrix can be adjusted by changing the weights of the dimension parameters. To achieve a frictionless flow within the target-search process, permanent tracking of chosen criteria and possible adjustments during the whole process must be ensured. The outcome in this stage gives the

searching company its first indications of market fit and strategical fit, and should lead to the exclusion of some targets in order to narrow the scope of investigated targets and proceed with remaining target companies in stage 3.

Stage 3: Based on the previous evaluation, the remaining companies are investigated in a second step of this model using findings of empirical investigation in terms of success factors and their examined interrelation-dimensions. This dimension is based mostly on the practical insights of interviewed experts, due to the fact that there are almost no previous findings available in research literature. With this second evaluation, the acquiring company gets the chance to identify targets based on whether they are a good strategic fit for the company, and particular issues emerging often in post-merger integration are evaluated and lead to stop or go decisions for the individual target. The identification and evaluation of these interrelations increase the likelihood of a successful due diligence phase, which is the next step in the process. The interrelation evaluation is based on qualitative factors only, and reviews the strategic outline and perceptions for a successful integration after the closing. As the strategic fit was the outcome from stage 2 and is therefore a given, in this part, the company's ease of integration is evaluated. Only with a go-decision will the target be considered for a further due diligence and in-depth analysis. Figure 14 shows the second matrix, including only the targets which were previously within the defined range from matrix 1 above.

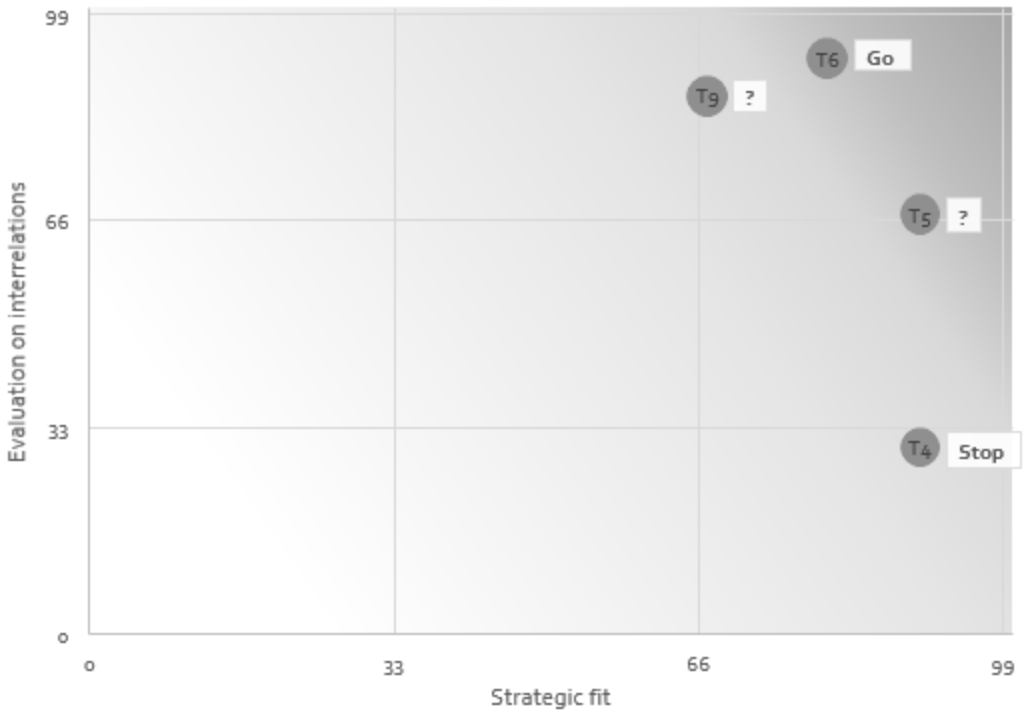

Figure 14: Stop-and-Go M&A- decision matrix (own presentation)

This is an example model not based on a practical example. It could of course be the case, that there is no target left within the Go-sector after this evaluation. Whether the decision is made to stop or go is left to the discretion of the individual company. In this case, it must be carefully considered whether the process should be ongoing at all, whether some additional external experts should be consulted in case internal knowledge is not sufficient to evaluate risks properly, or whether it is from an objective point of view time to cancel the process and to take a step back to review the strategic objectives and either adjust or wait for another chance These two different approaches, including quantitative and qualitative evaluations on the one hand, and taking an in-depth look at relevant interrelations on the other hand, provide the advantage of discovering essential interrelationships between the post- and pre-merger phase. The anticipated challenges from post-merger integration can be integrated into the pre-merger processes, where they can

mitigate risks during the particular target-search and later on in due diligence procedures and negotiations with the potential targets.

Further research on interrelations and concepts is required in order to investigate these interrelationships more deeply. This model is only preliminary, with only insights from experience and the small amount of existing recent research rather than practical insights from an actual process. It would be interesting to test this model on usability and customize it for challenges and individual companies. It is still a very basic concept without specific measured values. At this stage, the model should be viewed more as an indication based on the insights of this thesis. It is meant to graphically display the idea of the underlying concept within a successful target search. Further research can lead to adjustments of the model, to concretization of criteria and evaluations, and standardization of process structures within the model. Perhaps there will be a completely different approach to optimize the target search based on the interrelationship approach.

8. DISCUSSION & CONSCLUSION

More and more M&A transactions with increasing transaction sizes are undertaken despite the high failure rate. After all, ongoing globalization of markets and political, monetary, or technological changes force the companies to deal with new challenges and promote continuous adjustments to market conditions in order to stay competitive. In these circumstances, M&A can be one way to react promptly to changed requirements. Its prerequisite is the successful execution of the transaction in terms of gaining from additional value. Tough market conditions, limited internal resources for M&A transaction projects, and permanently highlighted and prominent acquisition failures lead companies with an acquiring incentive to examine in-depth underlying reasons for failures, build an internal knowledge base, and plan the project with circumspection to avoid falling into the same traps that others did. The most obvious method of proceeding is to consider information to the furthest extent possible, and when a limit of knowledge is reached or it is already known that that particular knowledge is not available within the company, to approach an expert for the relevant information.

However, failure rates in practice and existing shortcomings, as confirmed by interviewed experts, show that this is still insufficiently done on a large scale. Insufficient execution starts with entering a merger process with an opportunistic or passive approach, and continues with failures in the execution of a target-search process and the insufficient implementation of crucial key factors of success into the criteria catalogue. Although these topics were researched in decades, the existing body of information based on pre- or, particularly, post-merger analysis is often not or only barely considered before entering into the due diligence phase. M&A research remains vague on evidence for actual success factors from a strategical point of view, and only provides a vast amount of performance factors from the financial perspective. This leads to a lack of common

knowledge and approaches towards strategy preparation and planning are often conducted inappropriately by midsized companies. Lack of experience, one of the main issues examined in smaller and mid-sized enterprises, poses a risk to the successful implementation of the process. More cautious soft factor considerations, human relationships within the organization itself, and the integration of the target into the acquirers company are applicable for all companies in the future. These overlaps between integration and pre-merger are still only researched to a very small extent, even though all experts pronounced them crucial factors for the successful execution.

Another very common issue in research and expert interviews is biased emotional involvement. During my studies for this thesis, it became clear that there is a systematic tendency for executives in both multinational and small-to-midsized companies to be biased towards particular target companies, and to distort the strategic rationale by overestimating benefits and underestimating efforts and risks during the merger project. This results in the overpayment of the target and decreased potential to add value (Mukherjee et al., 2004). This thesis provided some particular insights into the broad range of interrelations, especially from a backward-implication (post to pre) view. For future research, the above mentioned and further critical success factors should be linked more carefully to different stages within the process, particularly the pre-merger stage, in order to define potentials and to develop models that support a successful project, and to increase the overall probability of positive outcomes.

Studies examining the links between critical success factors from the pre- and post-phases are rare, but they have a high importance in explaining the successes and failures of M&A nonetheless. The vast amount of existing research, which is either built on pre-acquisition factors or post-acquisition factors, does not support an approach that is interconnected on multiple levels. M&A research has focused too long on static, separately-considered factors. The M&A process

should, in the future, be perceived as a pluralistic approach and include interconnections between single interacting factors to a higher extent.

8.1 Knowledge transformation

One finding in my research is that although the due diligence stage is so far considered to be the most important stage, in which all relevant information is gathered and evaluated for the target company, it is important to partially transfer this information flow to the step before, the target-screening process. This helps to manage the funnel with more advanced criteria. Financial data and other data under compliance principles cannot generally, of course, be examined beforehand, but businesses should attach greater importance to soft factors like communication strategies, leadership issues, and integration strategies for each particular acquisition case. The company should also establish defined responsibilities of the individual project partners during post-merger integration, along with key figures to be achieved. Clarifying as early as possible whether the ownership structure per se and the future leadership strategy fits together seems to be one of the critical topics. From my research, it becomes clear that bad communication and different assumptions lead to insufficient preparation and result in a lack of knowledge transfer, which is often a factor why a project may fail. The integration strategy outline is of particular relevance for this phase, based on the previously-defined type of acquisition. This thesis therefore provides a more comprehensive overview of M&A issues in different phases and the importance of connecting them into the pre-merger stage.

8.2 Experience and Learning

Another finding regarding risks and chances is that they can only be adequately considered and evaluated if there is knowledge and experience available. It is important to know about potential risks existing with the individual target. For companies with no experience in M&A, this is very difficult, if possible at all, to work out. Therefore, these companies can hardly eliminate the approach of external experts from their target-search and evaluation process. Big companies with much experience in the M&A business are encouraged to build an internal knowledge base in which all the experience is stored, in order to support future projects and to avoid loss of knowledge. Here, I can see the potential for big companies to develop specific storage concepts and experience-based resource allocation for upcoming transaction projects. Some companies certainly have concepts already (e.g., a platform system), but it also became clear from the experts I approached that the current standards vary greatly within individual enterprises. This dynamic learning process is still neglected by many companies in the area of M&A. However, as described before, problems are easier to identify if they already occurred once and experience has already been made with handling them. (see Black Swan model), and with including knowledge of internal or external experts on hand who already made the experience with this kind of issues. This work offers first a source of external knowledge including “do’s” for a company’s M&A approach, and second provides certain risks, occurring from neglected interrelations between process stages which are connected to “don’ts” in the company’s M&A approach. As a result, a more complete view on the strategic transformation logic including chances and risks of upcoming integration issues is provided for companies with an M&A incentive.

8.3 Future research

However, for further research, the results in this thesis can only have positive implications on M&A transactions if decision-makers take them into account and change their attitude when entering such a project. In this section, a backward integration from post-merger analysis into the premerger process is made. Further requirements for future investigations will be the integration of two more issues, the in-depth analysis of backward and forward connections, and, even more important for companies, a practical setup for them to use these empirical results and achieve their envisioned objectives. This relationship-based approach in the merger process seems to be a precondition for increased rates of success and leads, according to recent studies, to superior acquisitions. Paying particular attention to increasing the level of knowledge in the target-screening process supports the decision for the right target during the funneling process and keeps the acquiring company from entering due diligence with a selected target that does not fit the company. For this reason, future research must focus on the theoretical base: on how these information gaps can be closed and on a more interrelated comprehensive standard-approach, and for the practical approach: and for the practical approach: what established concept papers should look like, such as the integration concept based on the type of the acquisition. These are tasks for the future in order to generate value to M&A projects. Also, the developing frameworks for M&A platforms and internal knowledge-based learning systems are tasks for responsible persons from M&A departments. For small and midsized companies, this is of course not manageable internally due to the scarce resources. They must be able to fall back on external sources such as consultancies, who should provide models to enrich knowledge beforehand and build a learning system within the client’s company.

In my opinion, the success of a merger strategy can be significantly improved by reconsidering the current standard model and instead adopting a connected approach within the company. This connected approach requires a deeper understanding of the comprehensive process. It demands the postulation of potential upcoming risks and problems with every individual target company, an assessment of to what extent these risks could contribute to a failure, and a resulting answer in terms of specific concept papers that address the problem sources and support a smooth settlement based on a more realistic image of capable synergies.

8.4 Other possibilities to consider

Although this thesis is focused on the “make or buy” decision, other solutions should not be neglected at all. Globalization and increasing levels of technology provide companies with a wide variety of possibilities for realizing growth. Shared ownership, rent partnering, and cooperation are just a few examples. To develop growth in a sustainable way, preparation and analysis of possible opportunities is the most important step to undertake. There is no special roadmap for every firm and every strategy with predefined steps to take in order to succeed; finding the right way to add value to the business is more important.

In the end it can be said that ties which are meant to stand the test of time and industry-wide challenges and be bound together eternally should examine their fit from the very beginning. Not only hard factors, but soft factors should be considered. Not only short-term, emotional but long-term and more rational considerations must be made. Not only single factor models but multidisciplinary models as base for and not only existing sources of information but also independent internal or external knowledge must be build or approached. In characterizing a model and derivation measures to take into account findings from research undertaken, a pattern is

provided to be used by companies approaching the process. No standard approach could capture the overall complexity of an M&A process. Nevertheless, a framework as provided by this first model-pattern with certain do’s and don’ts can be a valuable source for company’ s strategic considerations and support the transformation from common knowledge into the company’s individual needs and requirements. Strategy and its potentials can then be examined to a larger extent, and the increased awareness for the supports an improved likelihood of success for the process.

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10. APPENDIX

10.1 Figures

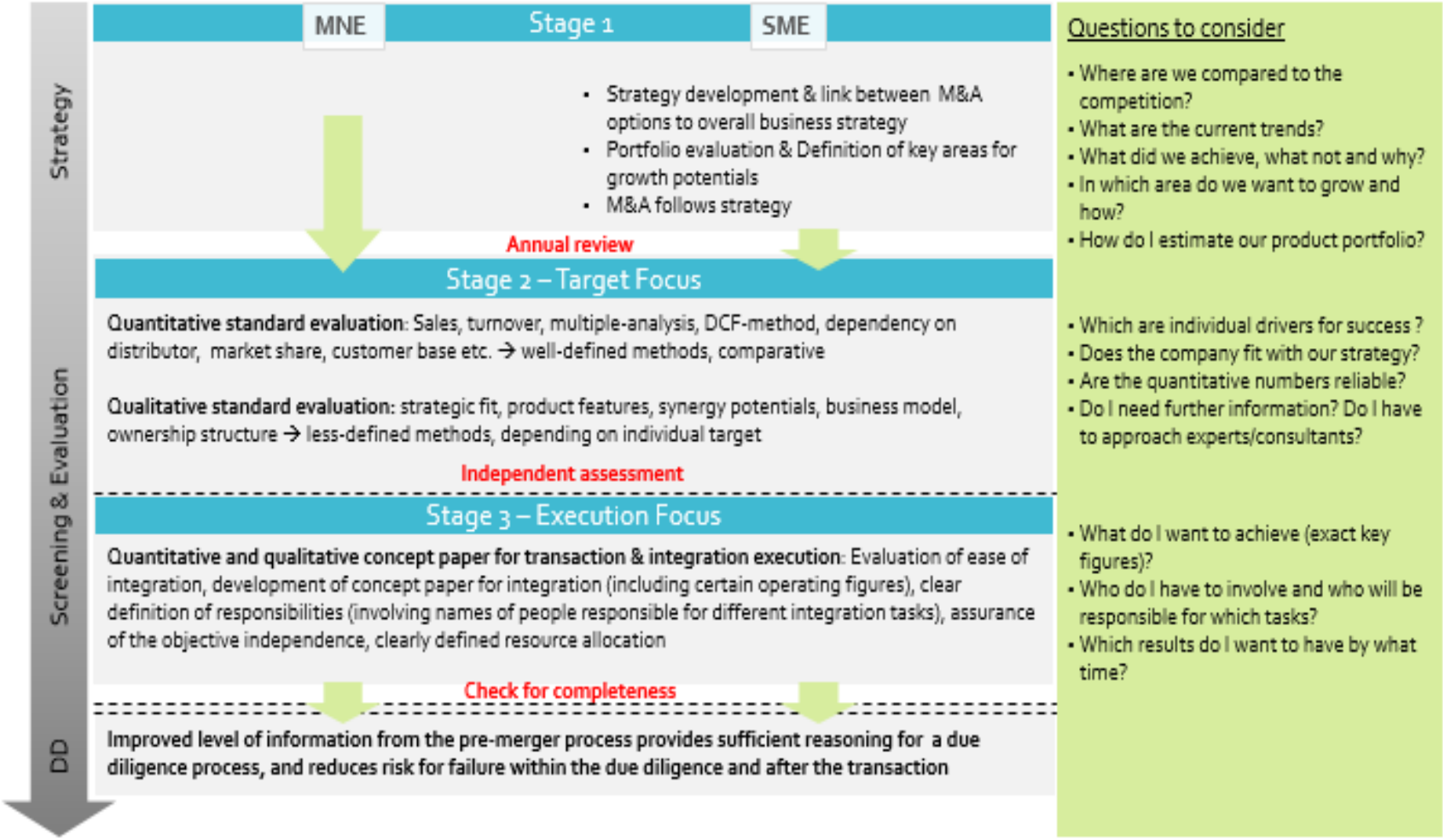


Figure 15: Suggested 3-stage process setup with focus on means of information procurement and relevant questions

10.2 Tables

Table 1: Summary of studies on M&A success and results

Study	*Time Period*	*Type of study*	*Major findings*
Hazelkorn et al. 2004	1990-2002	nple with acquisition with a transaction value of east $250million. 1,547 transactions were lyzed. Factors that differentiate successful nsactions from unfavorable ones identified on a ression based analysis; for the short as well as in long term	• Related mergers are more often successful than unrelated ones • Industries with modest earnings growth are favorable instead of high growth industries • Private mergers depict higher firms value compared to public mergers • Foreign mergers imply higher probabilities of success compared to domestic ones • Cash finance structure exceeds stock payment (cash: +0.9% realized gains compared to peers/stock: -1.9% losses)
Seth 1990			• Related merger dominance over unrelated
Morgan Stanley 2006			• Cash/debt finance structure, cash dominates stock • Revenue & cost synergies • Price matters/Importance of adequate premium paid
Kohers& Kohers 2000	1987-1996	Sample of high tech firms > 1600 companies are investigated on the finance structure stock vs. cash	• Related merger dominance over unrelated • Cash/debt finance structure
Gosh 2001			• Cash/debt finance structure
Booz, Allen & Hamilton			• Revenue & cost synergies
Lubatkin 1987		Stock returns in 1031 large mergers of 439 acquiring firms and 340 acquired firms	• Related merger lead to permanent gains
Berger & Ofek 1995	1986-1991	Estimating diversification's effect on firm value by comparing stand-alone value sum to the firms actual value	• Diversification/conglomerate mergers: the degree of relatedness is positively correlated to realized returns
Houston James & Ryngaert 2001	1985-1990 1991-1996 1985-1996	Sample of the largest bank mergers 1985-1990: 27 deals (both parties banks) 1990-1996: 37 deals (both parties banks) 1985-1996: 64 deals	• Expected synergies result in positive revaluations; strategic motivated synergies dominate expected cost-saving synergies
DeLong 2001	1988-1995	280 bank mergers classified according to activity and geographic area	• Combining similarity of activity and similarity of the geographical area enhance stockholder value around 3%; the other types do not create value
Asquith, Bruner & Mullins 1983/1990	1963-1974 1975-1983	Study sample examines effect of mergers on the wealth of bidding firms with a sample of	• 1983: Returns for bidders depending on size effects with a hurdle rate of 10% are mergers more value adding than beyond 10% relative size between acquirer and target

		343 completed mergers where target and bidder company are listed on NYSE or ASE	• 1983: Returns increase with the announcement of M&A programs in order to achieve strategic objectives by undertaking a series of transactions • 1987: Cash vs. stock finance structure in which stock deals have negative returns compared to cash deals
Bruner 1988			•
Ravenscraft, Scherer 1987	1950-1977	471 mergers were investigated on different points of interest e.g. the impact of tender offers on market value	• Firms with tender offer activity have a lower profitability of ~3%
Moeller & Heitger 2005		Experience based	• Negative evaluation of cultural differences in the organizational context is responsible for failure in M&A not the cultural difference per se
Teerikangas & Very 2006			• Cultural differences do not have a negative impact on M&A performance
Bradley, Desai & Kim 1988	1963-1984	Sample of successful tender offer contests with 236 tender offers included. All companies were either listed on NYSE or AMEX at the time of the acquisition/event study approach	• Successful single tender offers generate significant gains during less regulated time periods • Stockholder of target and acquirer realize significant positive abnormal returns
Chakrabarti 2009	1991-2004	Sample of 800 cross border acquisitions	• Cross-border acquisitions perform better than in the long run with higher degree of disparity
Kedia, Ravid & Pons (2011)	1979-2002	Use of industry commodity flows information to measure vertical relations 1692 completed mergers were examined	• Vertical deals after 1998 are associated with losses for acquirer
Fan & Goyal (2006)	1962-1996	Use of industry commodity flows information to measure vertical relations in completed mergers sample size of 2100 mergers	• Vertical mergers generate positive wealth effects that are significantly higher than those for diversifying mergers • Wealth effects in vertical mergers are comparable to those in pure horizontal mergers

Table 2: Relevant success drivers for the target search

Study	*Topic*	*Result*
Berger & Ofek 1995	Diversification & Conglomerate mergers	Average loss of 13~15%
DeLong 2001	Diversification/Similarity in activity & area	Average gain of related mergers 3%
Asquith, Bruner & Mullins 1983/1990	Size effect	Targets value relative to acquirers value > 10%, return to buyer: 4.1% Targets value relative to acquirers value < 10%, return to buyer: 1.7%
Kohers & Kohers 2000	Stock vs. Cash	Cash deals: 1.37% Stock deals 1.09%
Hazelkorn et al. 2004	Stock vs. Cash	Cash deals: 0.9% Stock deals: -1.9%
Hazelkorn et al. 2004	Focused vs. Diversifying	Short term: both types negative with -0.6% Long term: focused mergers: 2% > than peer group Diversifying merger 3%< than peer group
Hazelkorn et al. 2004	Public vs. Private	Short term return acquirer: with private target: 1.9% with public target: -2.3% Long-term (2 years) return acquirer: with private target: 4.2% with public target: -4.4%
Fan & Goyal (2006)	Horizontal vs. vertical	Vertical mergers: 2.5% av. Combined wealth effects (1 day window) Horizontal mergers: 2.9% av.. value effect
Hazelkorn et al. 2004	Foreign vs Domestic	144 mergers cross-boarder Short term: value effect of 0.8% compared to -0.6% value effect of domestic mergers in the sample Mid-term: 8.4% value effect of foreign merger

Table3: Presented results from survey; success factors & concerns
3a: Relative importance of success factors, 3b: Relative importance of concerns; evaluation from 1 to 5 (5 most important, 4 important, 3 neutral, 2 less important, 1 least important

Success Factors	***Value***
1- Clear definition of M&A Strategy	4
2- Strategy and planning	4.4
3- Analysis of Markets & growth opportunities	4.1
4- Investment framework	3.6
5- Achieving optimal price	4.4
6- Capability of Management	3.6
7- Speed of decision making	3.6
8- Conducting an appropriate due diligence	4
9- Understanding cultural issues	3.4
10- Negotiation process	4.1

Concerns	***Value***
1- Not clearly defined M&A objectives	3.9
2- Unconfident with target search processes	2.9
3- Lack of resources for a comprehensive target search	3.1
4- Inadequate target identification process	3.3
5- Lack of knowledge about target industry/ competitors	2.3
6- Inability to identify available synergies	2.6
7- Inadequate quantification measures	2.4
8- Insufficiency to evaluate the targets accurately	2.7

Table 4: M&A approach details

	Active approach		***Opportunistic approach***		***Reactive approach***	
Number of namings sum	6		5		4	
Company size (in mio. €)	0-250	>1000	0-250	>1000	0-250	>1000
Number of namings	1	5	3	2	2	2

Table 5: Presented results from survey; motives & approach measures
5a, absolute responses to major motives; n=26, in descending order; multiple responses were possible, 5b absolute responses to implemented approach measures; n=41, in descending order, multiple responses were possible

Motives	***Responses***
Development in new geographic areas	9
Exploiting customer base	5
Product/ Service diversification	5
Acquisition of technology/ innovation	4
Pursue cost synergies or scale efficiencies	3
Exterior incentives e.g. trends/ poor alternative investment opportunities	0
Others	0
Sum	26

Approach Measures Implemented	***Responses***
Analysis of target markets & their growth potential	9
Creating an internal M&A team	8
Set up of a roadmap for PMI	6
Analysis of target industries & trends	6
Outline of the M&A plan which allocates resources, plans budget and timing of the process	6
In-depth analysis to identify potential sources of synergies	5
Others	1
Sum	41

Table 6: Absolute responses to reasons for failure
n=21, in descending order, multiple responses were possible, two out of ten participants did not mention any failure rate beforehand and therefore did not response on any reason for failure.

Reason for failure	***Responses***
Adverse market conditions	5
Insufficient planning/ target search process	4
Execution failure	4
Integration failure	4
Inadequate target choice	3
Others	1
Sum	21

Table 7: Top 3 and Top 1 success factor & concern in M&A transactions

Success Factors	***Top 1-3***	***Top 1***	***Concerns***	***Top 1-3***	***Top 1***
1- Clear definition of M&A Strategy	5	3	1- Not clearly defined M&A objectives	9	4
2- Strategy and planning	4	0	2- Unconfident with target search processes	3	0
3- Analysis of Markets & growth opportunities	4	2	3- Lack of resources for a comprehensive target search	4	4
4- Investment framework	1	0	4- Inadequate target identification process	4	1
5- Achieving optimal price	5	2	5- Lack of knowledge about target industry/ competitors	3	1
6- Capability of Management	3	1	6- Inability to identify available synergies	1	0
7- Speed of decision making	3	0	7- Inadequate quantification measures	1	0
8- Conducting an appropriate due diligence	3	0	8- Insufficiency to evaluate the targets accurately	3	0
9- Understanding cultural issues	0	0			
10- Negotiation process	2	2			

Table 8: Exemplary presentation of target evaluation scheme

Criteria selected based on expert interviews, exemplary process to display the matrix approach

Qualitative	Relative criteria	Comments for evaluation			Evaluation scale	Absolute Value			Relative importance	Relative Value		
		A	B	C		A	B	C		A	B	C
	Ownership structure	good outlook	more issues	some issues	1-10	6	4	5	0,25	1,5	1	1,25
	Prob. type of acquisition	too big/ no tuck-in	stand alone pos.	too small	1-10	3	6	2	0,05	0,15	0,3	0,1
	Technology	mature	Insuffi-ciency	good	1-10	9	2	8	0,2	1,8	0,4	1,6
	Industry focus	70% in industry	90% in industry	30% in industry	1-10	6	8	4	0,15	0,9	1,2	0,6
	System usage	internal used	low interface	not used	1-10	8	2	1	0,3	2,4	0,6	0,3
	Communication issues	first meeting	previous interaction	first meeting	1-10	6	9	6	0,05	0,3	0,45	0,3
	…	…	…	…	…	…	…	…	…	…	…	…
Qualitative sum						38	31	26	1	7,05	3,95	4,15
Quantitative	Absolute criteria	Numbers			Evaluation scale	Absolute Value			Relative importance	Relative Value		
		A	B	C		A	B	C		A	B	C
	Turnover	2.300.000	3.100.000	1.200.000	1-10	5	8	5	0,3	1,5	2,4	1,5
	Selling numbers	12.000	8000	5000	1-10	3	6	2	0,25	0,75	1,5	0,5
	Market share	5%	3%	2%	1-10	6	2	8	0,2	1,2	0,4	1,6
	Margin	4%	7,70%	5,50%	1-10	4	9	6	0,25	1	2,25	1,5
	Customer base	…	…	…	…	…	…	…	…	…	…	…
	Cash flow	…	…	…	…	…	…	…	…	…	…	…
	…	…	…	…	…	…	…	…	…	…	…	…

Quantitative Sum						18	25	21	1	4,45	6,55	5,1

10.3 Survey

This survey is conducted within my master thesis in order to provide data about the target search process in M&A's, to identify issues, and to support optimization of this process

Survey on Mergers & Acquisitions

Part I: General Information - Company

1 My company is headquartered in (country/ state)

2 My company's primary industry is (industry name)

3 My role within the company is (jobtitle)

4 The annual revenue (in EUR) of my company is

- ☐ < 10 million
- ☐ Between 10 and 50 million
- ☐ Between 50 and 250 million
- ☐ Between 250 million and 1 billion
- ☐ More than 1 billion

Part II: General Information - M&A Transaction

1 My company was involved (including current projects) in ___ M&A's between 2000-today

- ☐ 0
- ☐ 1-3
- ☐ > 3; (quantity)

2 My company approached the M&A process through

- ☐ Active approach: Proactive target search process
- ☐ Reactive: Company was approached by one or more potential seller
- ☐ Opportunistic: Unexpected opportunities emerged

3 My company's primary motive(s) in executing M&As was/ were (please check all that apply)

- ☐ Development in new geographic areas
- ☐ Exploiting customer base in existing markets
- ☐ Pursue cost synergies or scale efficiencies
- ☐ Product/ Service diversification
- ☐ Acquisition of technology/ innovation
- ☐ Exterior incentives e.g. trends/ poor alternative investment opportunities
- ☐ Other

This survey is conducted within my master thesis in order to provide data about the target search process in M&A's, to identify issues, and to support optimization of this process

4 My company decided to approach a consulting firm for support during the target search process

- ☐ Yes
- ☐ No

If No please explain why you are confident without support (e.g. internal experience)

5 My company approaches the M&A process through the implementation of following measures (please check all that apply)

- ☐ Creating an internal M&A-team
- ☐ Analysis of target markets & their growth potential
- ☐ Analysis of target industries & trends
- ☐ Outlining an M&A plan which allocates resources, plans budget and timing of the process
- ☐ In-depth analysis to identify potential sources of synergies
- ☐ Setting up a roadmap for post-merger integration
- ☐ Other

6 Of those transactions my company was involved in, ____% did not generate their expected value

- ☐ 0%
- ☐ 1-25%
- ☐ 26-50%
- ☐ 51-75%
- ☐ 76-100%

7 Of those transactions that have not generated expected value, the main reason(s) was/ were

- ☐ Insufficient planning/target search process
- ☐ Inadequate target choice
- ☐ Adverse market conditions
- ☐ Execution failure
- ☐ Integration failure
- ☐ Other

This survey is conducted within my master thesis in order to provide data about the target search process in M&A's, to identify issues, and to support optimization of this process

Part III: M&A Success Factors/Concerns

Please evaluate **deal success factors** in their importance for your company. 1st. identify your Top 3 (1= top, 2= second, 3= third) factors. 2nd. evaluate all factors from 1 to 5 (5 most important, 4 important, 3 neutral, 2 less important, 1 least important)

Factor	*Top 3*	*5*	*4*	*3*	*2*	*1*
Clear definition of M&A strategy		☐	☐	☐	☐	☐
Strategy and planning		☐	☐	☐	☐	☐
Analysis of markets & growth opportunities		☐	☐	☐	☐	☐
Investment framework		☐	☐	☐	☐	☐
Achieving optimal price		☐	☐	☐	☐	☐
Capability of management		☐	☐	☐	☐	☐
Speed of decision-making		☐	☐	☐	☐	☐
Conducting appropriate due diligence		☐	☐	☐	☐	☐
Understanding cultural issues		☐	☐	☐	☐	☐
Negotiation process		☐	☐	☐	☐	☐

Please evaluate the listed concerns in their importance with respect to your companies **target search process.** 1st. identify your Top 3 (1= top, 2= second, 3= third) concerns. 2nd. evaluate all concerns from 1 to 5 (5 most important, 4 important, 3 neutral, 2 less important, 1 least important)

Concern	*Top 3*	*5*	*4*	*3*	*2*	*1*
Not clearly defined M&A objectives		☐	☐	☐	☐	☐
Lack of confidence in target search process		☐	☐	☐	☐	☐
Lack of resources for a comprehensive target search		☐	☐	☐	☐	☐
Inadequate target identification process		☐	☐	☐	☐	☐
Lack of knowledge about the target industry/competitors		☐	☐	☐	☐	☐
Inability to identify synergies		☐	☐	☐	☐	☐
Inadequate quantification of synergies		☐	☐	☐	☐	☐
Insufficiency to value the target accurately		☐	☐	☐	☐	☐

Thank you for taking the time to complete my survey and thereby supporting my master thesis! The information will be used for research purposes only.

Nina Felicia Wetzka

10.4 Interview transcriptions

10.4.1 Interview A:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is the level of process maturity in the M&A process (ad hoc, defined, managed, controlled, repeatable)?
- Does your company have an established organization for supporting the M&A process in all phases?

A (experience): I am in this M&A sector since 8 years, mostly responsible for due diligence and post-merger integration issues. But I also leaded three post-merger and pre-merger screenings as a part of the transaction team. Recently we bought another company and there I was involved within the pre-merger screening process as well.

A (level of process maturity): The level of process maturity during the pre-merger process, I would describe as quite ad-hoc. There are no established tools yet. No established standards in the process when companies are compared with each other more ad hoc within the many individual processes and less standardization.

A (department): The responsible department within our company is the corporate development department

Q4: (Opinion based: Perceptions)

- Does your company have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - What aims does your company want to achieve through the transaction?
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.
    - How to approach the overall M&A process and its single stages?
    - Necessary steps to undertake in order to achieve this objectives?

A (strategy integration): The M&A strategy is deeply interconnected with the overall company strategy of the business. We are a constant and high-frequent acquirer with much experience. weh have generally high-standardized decision making processes within this strategy. When we want to go into a new market, we start with a founded view on the new trends there. Trial and error can happen with development as well as when buying assets but we have to assure that possible risks are avoided as good as possible. The decision involves often the argument and the factor time: How fast do we have to be on the market. When time pressures the acquisition is a valid option. Up today we bought around 50 companies in business history, most of them in recent 10 years. Therefore it is linked to the company's overall strategy. In the last 5 years there was one most important focus on one particular trend: xy. Most of acquisition were in this sector. It was a typical example, when time was a crucial factor of success. We are quite established with our portfolio screening and when we find so called "white spaces" in the portfolio we consider to close this gaps through an acquisition or we question ourselves whether we are fast enough to develop these gaps ourselves through organic growth? We had clear options within the portfolio estimation such as: Do I invest 10.000 days of development for a certain technology or do I buy the company. The acquisition therefore is an option which has to be proofed previously.

A (motives): There are generally two major objectives: The first one is to buy in into new markets and second to close the gap of white spaces in the business portfolio. Examples 1) cloud based technologies, sports and event-management in which we work together with other companies e.g. ticket selling processes etc.. When it was examined as a white space and then acquired to be able to satisfy customer requirements.

- Interim Q: Where are higher hidden risks? New markets buying or white spaces gap-closing?

A (interim Q): I won't say to enter a new market is less risky. To enter a new market is not only to be able to provide the products needed but also to have the important network of relationships to customers, the type of selling I do, price releasing etc. relationships with suppliers, distributors etc. How do I sell my product? This is knowledge I buy when I buy me in into a new market. I think it is sometimes less risky to buy a business which all this knowledge already has.

A (alternatives): Yes, alternatives are evaluated. We do not have any JV. We have the possibility to partner and to resell partner products in our portfolio even when the assets do not belong to us in general. Normally, these are solutions which include high revenues in order to make sure that the global selling structure has its promised purpose. (8 million € turnover). It is a valid option when we want to entry into a new business line but we are not sure yet whether to buy or not. We can see whether our company can sell such a product, whether the product fits into the customer's identification with our products. We have some resellers, we bought after we figured out that the business model is working for us. The turnover was enormously high so we bought the company in order to have 100% of the turnover profits and do not have to share them anymore. Sometimes it is not possible to acquirer a target, due to the current market or maybe legal environment or other factors, then we would try to partner at least to have the chance of a good positioning in the market.

The question is which procedure dominates? The most important question here is: Am I able to buy and is there consensus on investment from board etc. Second, when starting with a resell, are the turnover expectations I estimate, valid? Or is there not even enough turnover expected to do a resell? We also have cases where we had resell options but we did not meet the turnover expectations of our internal benchmark. Last we also have other partner possibilities, certifications, referral etc. The industry often is quite narrow, therefore first these two options are figured out but if there are no opportunities for neither of them we have to find another way. There is no statistics which of these two approaches are used more often.

A (approach): Well beginning with the very early stage: With the definition of a strategy even before the actual screening processes. There are two main sources: Corporate strategy in which x as a MNE business defines its overall strategy and the specific areas in which we are going to be active. And the second source: The individual product strategy coming from the different departments. The single product departments define their white spaces in their portfolio and give an outlook in which direction they want to develop their product structure. Where is expected demand in the near future? These are the internal sources and on the other hand there are external options. Companies approach us in order to sell their company to us (I would say around 500-600) per anno. 99.9% were denied. But we can see from these offers, what are market drivers, which trends do we have etc. Sometimes a company which approaches us become a potential target in another process. .

When the chosen area is clarified from strategy side, the first step is to clarify the framework of this area. Which exactly is the field of interest? What are growth numbers (expected), and relevant significant market dimensions? Then somebody from the board has to justify the process. We have several decision steps in this process before we approach any target company. Generally the executive management board or the product manager gives the go or stop. Only with this go the screening/pre-merger process starts. We rely on different sources: Internal sources/trend talk/internal knowledge (within the white space politics). We also have a competitive intelligence team which always screens the market. Then there are external experts/other companies which we can approach sometimes under certain non-disclosure agreements to gain in-depth knowledge. These sources help us to find the relevant target group.

- Interim Q: Can you explain the differences in the evaluation process between active and passive approach:

A (interim Q): We receive an offer for a business. (f.e. platform logistics). First, we would ask relevant representatives from product site. Do we have a gap in our portfolio in this field of business etc.? The relevant department, then figures out whether we need something like this. Does it fit in our portfolio etc.? If yes the process is as following: The board has to support this request. Then we start to screen the market and competitors. But we won't screen the market to the same extent then we do in an active approach searching for ten targets and evaluating them in-depth. But of course this is not general, it depends on industry etc. Sometimes there is just one company available then there is no environment which could be screened.

But when we really start the screening process, we figure out whether we want to do it with or without involvement of the corporate development team. Who is starting the market screening corporate strategy or the product departments? Then potential targets were analyzed on a long list without contacting them and including sources like: Homepages, analysts, data, experts etc. then afterwards a review is done: are these targets the right targets chosen and are there more possible areas where we can search for others, can we effort to buy them. Then the short list is set up, including e.g. three targets and a definition of the certain attributes is done on which the short list is based and the actual selection is founded. Criteria like: product features, financials, but they are often very specific for the individual target searched. Financial evaluation on the contrary is very

standardized but features very individualistic. The financials include questions like: How stable is the company in terms of turnover, costs, ownership structure etc. other attributes are examined in meetings with the companies. Evaluating the short list in terms of this attributes is the following step and then looking for one company which fits best from: financial side plus a wish or at least the willingness to sell the company or to partner, from the ownership structure which must fit in our business and from turnover forecasts, where they have to meet the benchmark. If there is one best target found, the next decision is again made from the executive board and the decision to go for a due diligence procedure is then the next step. At this point of the process, we define a max. price for the target. This max. price is not negotiated afterwards again in order to control cost risks and chances during the process. The target specific price depends on how many assets we buy and whether the business is stable in turnover (resell products). Sometimes only skills or technology is bought without any tangible assets. These are so called technology tuck-ins. These are the two major classifications of acquisitions. The approach towards M&A is depending on which type of acquisition is made whether it is turnover based or skill based. Following this classification we can modelling the financials.

Q5: (Opinion based: Motives)

- Which are the major motives for M&A
- Are these motives dependent on different factors such as industry/size/organization structure etc.?

A (major motives): I would say new markets exploration and gap closing are operating objectives or formal objectives: Net present value increasing, adding value to the company, integration must be successful in order to achieve formal objectives. A must of being successful with the acquisition is the requirement in a long-term view more than three to five years at least for our investors. There is no short-term thinking in that part. It is important to be sustainable.

A (motives depending): Depend on industry size, the maturity of industry, internal knowledge of the market requirements and different integration types. F.e. stand-alone (cloud) integration is made when acquired companies, in order to ensure the further development and not to destroy value through too early integration, stand alone for some time. New upcoming issues like health

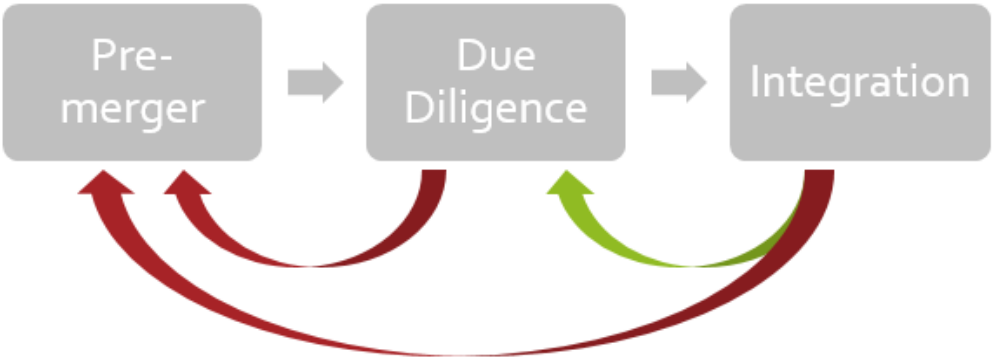
f.e. are often examples in this cases. Then the value often lies in network buying, when the industry is relative far away from the own business model

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Which concerns and obstacles are most likely to occur in your company, which can hinder the successful merger?
- Do you think soft factors are crucial point of success? (e.g human factors, communication, organizational culture, business environment etc.)

A (success factors): In pre-merger: Having the right information is crucial because I build the evaluation on this information to avoid wrong decisions and when there are wrong information as a result the evaluation of course is wrong also. We try to find a mix from the internal view of information, which we gain from the target, internal market experts and internal analysts, as well as during the evaluation to have somebody included from our company who is independent and has no further touching points with this project. Mostly somebody from the corporate development department. He reviews the results independently and supports the team to avoid falling into the "reverse hostage trap". It describes the problem to bias information in a way you feel. If you have personal interest for one product or company your rational decision making can be biased towards buying even when other rational numbers do not justify the acquisition. As a conclusion we can say: A proper market analysis, the efficient screening, right partner evaluation and a high-structured process are critical success factors.

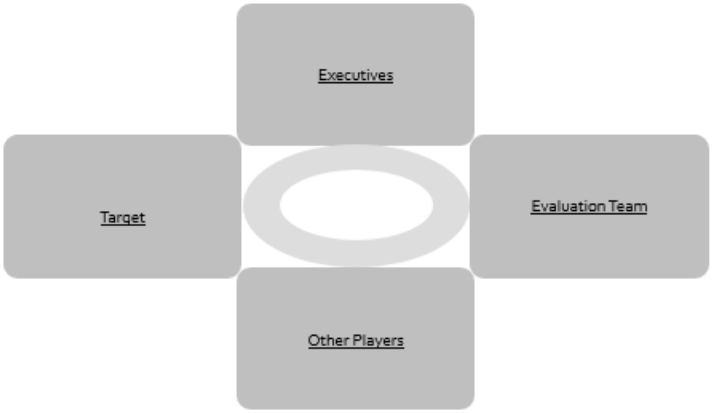
A (typical risks): Typical risks are like success factors. Information gaps, bias, employees who have a distorted view on the world or products because of the high pressure from customer site, they want to have a specific solution as fast as possible. The loss of a rational procedure due to personal preferences could be a possible risk. Also process risks coming from the ad-hoc procedure which are only avoided by the corporate development department. There could be possible mistakes during the process. Today there are no further controlling processes. Our process optimization is a backward rol-up. Let's see a process optimization "Figure 1, Interview A"



A (description/obstacles): Where do we have issues within the integration and what can I do in the due diligence stage already to avoid these problems which emerge in the integration phase. We made hundred process optimization cases and today we approach issues during the due diligence, which other companies today approached much later in the post-merger integration. Scans for security viability, scans for usability to find oversource products, which do not have a commercial evaluation. When I find issues like that only within the due diligence in the backward, I have no chance to react on it anymore. The next step would be to do this even before this stage, namely during the pre-merger target-search process. The first crucial point should not be the point when the due diligence starts but before. Before the due diligence starts and before an investment is made to gain all data needed, allocate resources. This is definitely something were we can involve more things into this stage of proofing. Today we do this mostly based on personnel integration. As I was included in due diligence often and personnel issues, I can see these issues for the early stage quite good. Example: For the due diligence made open source scans, we could f.e. ask previously the target companies: " How is your attitude towards open source products"? When they answer with it is great we use a lot open source products adding small features and have a great product in the end, then we have to be careful, because maybe there is not as much of a own product as expected before. Maybe we could do this on our own also. And when we change in such a product, single open source products maybe the complete product crashes. For scans during the due diligence we could imply this into the criteria catalogue and try to find out specifically how the potential target approaches this topic. Example security, questions about the features of products, testing from yourself or others, did you ever hand out any data, did you do penetration tests etc. were done to gain an impression of the overall maturity. From another area we could ask:

Do you have a reseller for your product, do you have any exclusively assigned territories or licenses? These type of contracts are hindering sometimes because they are hard to get out again only with a lot of money invested. F.e. they have one exclusive reseller for a country which could be a problem afterwards. Then we have to look at this problem specifically from the beginning. And like this there are a catalogue of questions we could ask before the due diligence when we do have two potential candidates, but one has a particular reseller somewhere which could be a major problem, then this could be a criteria for a decision towards the other company. But today there is nothing concrete like a structure for this kind of decisions. Therefore a pre-merger questioning on a more detailed level could be helpful to improve this process. This issues could have been figured out before entering into the due diligence. Better comparing two targets. More detailed questionnaires for targets including a catalogue maybe.

A (obstacles): Figure 2:



I have the targets, the executives (sponsors) an evaluating team and other related people. During the evaluation with maybe 5 companies, there can happen any change to one of these 4 pillars with negative influence. The buyer could head off, the target could be bought by another company, the executives could avert in order to proceed with other more important projects which are more important, in this case the evaluation does not make sense because after a short time the evaluation is worth nothing anymore with market changes. In the evaluation team one important factor is bias, do we have a distracted sight of the world? And the other players could strengthening the appearance of the potential target, which maybe could be an incentive to approach other investors and drive the premium during a bidder process. This can lead to the loss of control in the process.

Other external factors are, that the target itself is not anymore interested in selling the company because they feel important or they approach an investment bank for support and then a bidding process is setup. This is something were we lose control. Beside upcoming risks from third parties such as consultancies or investment banks I have no further ideas at the moment. Another risk depends to the timing, a general factor describing the timing to go into a market at the right time. This is a point where we lose control because it is less dirigible.

A (soft factors): Absolutely important. We did already mention bias, which is always existing, also within our department. It is highly depending on personnel. The company also depends on the person's workforce within the company. A company can look good on the paper but if the personal factor is strange or not well handled from the beginning this can be an issue. Of course this is examined much more in the due diligence. Furthermore it is the case that people from university have not that much experience, zero to a bit experience. They do not know properly, how do I compare companies, which attributes are important, we have to evaluate these with colleagues. These issues we have to examine with the colleagues, which are the important attributes for us to be included. Personnel can be a risk, the lack of knowledge, supporting the people with knowledge gaining.

- Interim Q: How are the typical attributes chosen which are relevant for the M&A process?

A (interim Q): Formal I would say there is no. People come together, from product department for a white space evaluation, from the corporate department and possible further experts which were included to have insights in details. Then they figure out criteria in this heterogeneous team.

Q7: (Performance)

- What do you think about "time matters" within the process?

- What do you think is more important; to speed up the process at the expense of quality for evaluating/planning; or to run extensive planning and possibly miss the opportunity?

A (time pressure): Depends on how fast the market is evolving. How fast do I have to approach the process? Am I early enough to enter a market? Or is it already too late are two important questions. This timing factor is quite important. E.g. Internet of things. Fast evolving market. When I buy a company in two years maybe the market is already gone. The time pressure during the pre-merger is very diverse. There is no possibility to control the timing. Generally there is a time window in which we have to deliver results but the higher the time pressure is and the smaller this time window, the more difficult is to deliver a high quality information base. But we always do our due diligence with a structured process. We work all steps through which are required and do not leave any out. There are some elements in the process which I cannot steer myself. F.e. if I do not have a criteria catalogue but should be ready by tomorrow this is of course not possible. Second I am depending on external information. That implies I can't necessarily speed up the process, if I do not receive all information I need. Sometimes the quality is bad as well. These are main issues during time steering.

A (lack of quality): Surely if time is scarce quality can suffer. But in the due diligence process we always take our time to do this adequately. We have a four weeks due diligence stage in which we have our catalogue of questions we work on. This catalogues is executed step by step to avoid most risks and make sure information base is adequate. This process is always done! And not negotiable, also when there is huge time pressure and also if there is a probability to miss the opportunity. But the quality always is of higher importance than time pressure. This is depending on our decision line. We have very conservative management/investors. This implies we do: "growth at a reasonable price". We are relatively conservative about prices, times, hypes etc. We do evaluate very detailed to avoid losing control during the process. We would be bounced off by the management with fast track evaluations. We had some time before, a bidder process with very strict time bounds and a low information level. The target was very interesting for us but in the end we backed out the process because we could not justify to buy a target under this qualifications. Of course this is a mean used by target companies which could end as a trap to fall into. To increase time pressure and to avoid giving out more information could lead to lack of quality in the

information base which could lead to pressure on price evaluation of the target. Therefore in the end it could be when hustling through the process you buy a target on a price which is way above the actual value. There a company has to find a way out and to leave the company maybe behind.

But this is very specific for our company. Definitely not existent in all companies. There are many competitors looking for fast growth. It is industry specific. It is kind of a contradiction to be part of our industry which is moving very fast, and having conservative investment decisions.

Q8: (Performance)

- Do you consider available empirical research and its results in your target search process?
- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (empirical research): We do not have any of these statistics for pre-merger phases. In post-merger we have many statistics with different results. Today we have many companies particularly in Germany which are way better than the provided numbers in this research with their M&A success rates. This I based on the fact that the maturity levels were improved mostly in post-merger integration from up to down. The success rate in our country is higher than 80%. And this counts for most companies in Germany (big MNE's). This is mostly depending on the improved process from post-merger integration and due diligence. There are still risks which we did not address enough but the overall success has risen. We also have our failures but these are around 5-10% on the highest I would say. We try to avoid issues from due diligence on. To except typical factors of failure as early as possible.

- Interim Q: Why are there still failures sometimes?

A (interim Q): There are risks which were not considered. The black swan experience from the book deals from hell. Means: You always only see risks which you are already aware of. That implies risks you know, you have seen before or you personally have experience with. The more risks you know the less risks are remaining covered. Risks you have no experience with you often do not consider as a risk due to the simple fact that you do not understand it is one. To know more

risks would help to avoid but still is no guarantee to avoid every risk. Than external risks of course such as market changes, disruptive innovations which you can't control at all. This is never predictable and therefore you always have a small general risk to have a failure in your transaction.

- Interim Q: Are there risks evolving from the ownership structure as well?

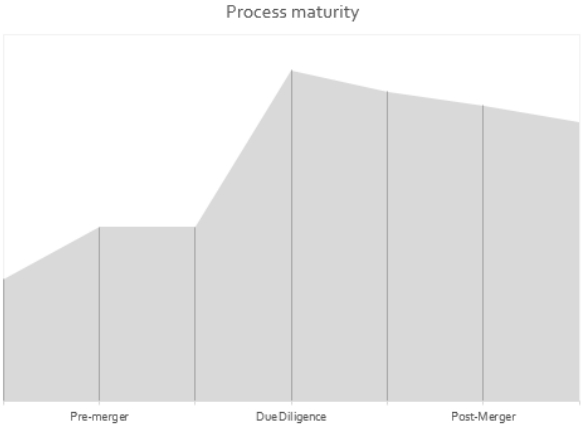
A (interim Q): A risk could always emerge from the ownership structure. We see this quite equal. We have to always review the personnel we do have on our side as well as the personnel from the other side, the target. The target management is important. The right competence of the target management is quite important. We setup a process to ensure this potential by coaching the management of the company sometimes and supporting them with issues we know but they maybe have no experience with etc. Do we have the right people and are they capable to integrate their company. F.e. Others do have certain criteria on which they evaluate such competencies with a star diagram which includes attributes like: size, industry, type of acquisition, employees, do we want to restructure? Workforce, turnover, countries etc.. Then they look on their history of star diagrams for an acquisition which was from similar type and who was doing it from their site. Which manager already did a similar acquisition with which success and then they try to get him on this particular project. This is a very efficient approach to benefit from existent knowledge/experience.

A (other sources): Relatively limited on: Flow of information from analysts, investment banks and other external information plus information from targets. All common known targets. Market screening with our available resources. On the contrary to mid-sized companies there is a department available which is doing this all time. Mid-sized companies do not have the resources to screen the market all time.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A: Fig 3



Due diligence and integration process is very mature. Ongoing process improvement is to make it leaner, this is something we already do but there is still some potential. But then from an overall maturity degree we have to do something between pre-merger and transition into the due diligence. Prematurity, peak, a bit down again. I think we have a good maturity made within the due diligence (peak) because we focused on that for a while now as well as other companies from the industry. And now we have to focus on the pre-steps. There is still a lot potential.

We started 8 years ago with the problem that when we bought a company it was not clear of how to make specific predictions about the certain point in time when we can start doing revenues. But this is critical. Because with changes in the model, this the evaluation of the target changes on a large extent (NPV). Possible disturbances must be excluded to make a proper forecast. And we focused to delete this external disturbances for a time and to make adequate estimations about this point. To antedate this forecast into the due diligence was one of the crucial issues we worked on these last years. A wrong forecast is absolutely to avoid. Today we can make a proper forecast with 80-90% I would say.

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/organizational form/industry/strategic fit

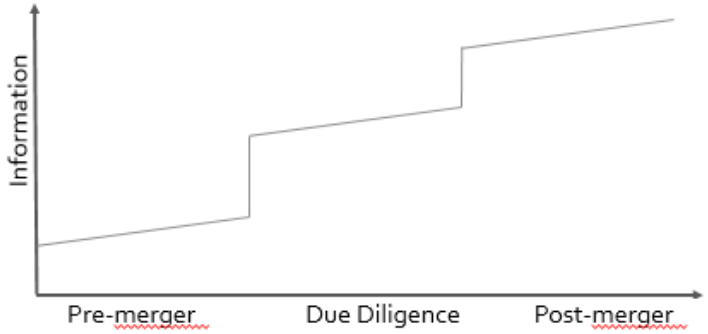
A: What are the important attributes to evaluate a company this knowledge normally is not existent and has to be figured out firstly. There is no formal process to setup those attributes/criteria. Experts from different fields (product management/corp. dev. Etc.) have to come together and define the criteria catalogue with important features involved. A model which avoids bias coming from attributes and criteria would be one possible opportunity to make the process more objective. Financial evaluation today is typically quite standardized with specific evaluation methods and easy to evaluate but other product features etc. at least when they are not generic, there is a lack of standard methods.

We depend strongly on our colleagues in the product management. What is important from a functionality perspective etc. This leads to a catalogue which we then match with evaluations from our analysts, researcher etc. what are our competitors strengths and do we have to improve in this field and what do we have to improve. The attributes are in an excel sheet ordered with different weightings of importance and then the targets are passed through this catalogue and checked in the end on an overall measurement. This is the basis for a decision on later decision rounds then. This process is controlled subjective. We have a heterogenic team to avoid bias and to find the right criteria catalogue. But of course it is subjective depending on the teams opinion. Of course we try to have some experienced people in this team who already did some evaluations before.

Q11: (Process)

- Do you consider integration issues and risks already in the pre-merger phase?

A: Fig 4:



Information that I have in pre-merger, the due diligence and integration phase. Amount of integration quality diverse. In the due diligence the quality of course is much better.

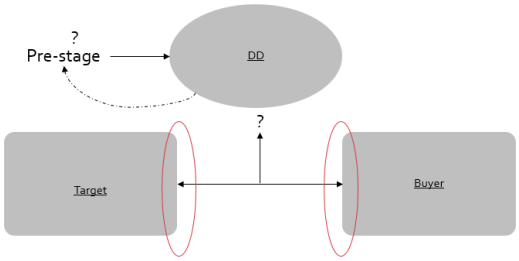
Q12: (Opinion based: Interrelations)

- Do you think that single stages within the pre-and post-merger phase influence each other? If so please specify.

A (influence): There are two major points: One Influence and tow Dependence. We do a due diligence process with one target at a time. That means we are dependent on information from the previous steps on which we make the decision for a due diligence. Generally from the pre-merger funneling process we have one single target which we make a due diligence with. We would prefer having more qualitative information beforehand. The dependence is clear though. It comes from the pre-merger stage entering the due diligence. That means: To avoid a failure within the due diligence means that the pressure to improve ourselves on the pre-merger stage. And this is where we are today. Example: a cancelled due diligence from a decision of the buyer side. This is unpleasant for all integrated people of course and there high sunken costs. This is a waste of time, resources, reputation. We did not work adequately enough during the pre-merger phase and then interim in the due diligence the endeavor was cancelled.
Therefore the legitimation for the due diligence has to be improved. In this case a specific key question was not addressed adequately during the pre-merger phase. And then during the due diligence it came up that the target was not fitting into the concept searched for. This could have been avoided before. Influence and Dependence is huge in an M&A.

- Do you have further examples why the due diligence could be stopped from target side?

A (interim Q): Fig 5:



Yes there are some. We can say there is a transaction between buyer and target. Then we have things like: failure, time-outs, quality issues which then needs special treatment from our side. But these problems are on targets side and are not easily controllable. But you have to make sure that everything is requested by actively asking those questions until you have the information needed even when taking more time. Questions are first: Is the information right? Second is the information comprehensive? Third did I understand it right? And fourth did I make the right conclusions out of the information? Or is there maybe the problem we mentioned earlier, a bias or reverse hostage problem? Did I run into a opportunity from subjective approach.

To avoid the reverse hostage problem I personally try to make the deal to fail for two weeks. If I can’t do that I have the other two weeks to make the deal happen. It helps to figure out potential problems and to approach these early. This is hard sometimes but it definitely helps. To be better prepared and allocate resources in order to approach problems very early after the deal was made.

10.4.2 Interview B:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)

A (experience): I am currently working in the strategy department of x and I get the M&A threads. But we are not consistent on the topic in individual departments. However, I have had experience in the past from my working position in a consultancy where we did also due diligence processes. However, I am not an expert in the field of M&A or an expert who is familiar with the various stages. I'm more in the upstream process, the actual strategy development, therefore the foundation for the M&A transaction.

Q3: (Consultant approach)

- Until which stage is your department mostly integrated into the process?

A (integration): The strategy process setup is embedded before the process of the pre-merger phase. We define key areas, crucial for the success of our company in the future. We define which issues can be approached organically, which in partnering, which are addressed through building/ making ourselves, and which are external or buying issues. We define a strategy for all of our emphases. This is the ostensible goal. In reality, of course, it is not as simple as that. It’s like being in a supermarket. You can only buy what is for sale. As the industry has often very limited supply in certain areas, it is often a difficult process to define targets which fit. It's more of an iterative process, in which we cooperate with the Business Development Department. The question is two-sided, means, whether “buy” as a strategy is interesting and whether it is even realistically possible. Mostly, strategies are partly adjusted at least once and then sometimes the strategy changes from building to a partnering project, etc., depends on the environment.

Q4: (Opinion based: Perceptions)

- Does your company have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - Necessary steps to undertake in order to achieve this objectives?
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.
    - How to approach the overall M&A process and its single stages?

A (strategy): Yes, well machine learning is a big trend at the moment, for example. How do we address this issue best? We look at our current portfolio and our strategies. Is the issue relevant for us and is there any blank spaces we can fulfill with the asset? Is the trend even relevant? All big companies have user cases variants. Our considerations then are about, what are the skills that we need for this? Or, what will be expected from this industry in the future? In order, then, to obtain the skills more quickly, it is possible to consider M&A as a strategy and to start with the market screening to search for possible target companies.

A (alternatives): There are all kinds of strategic alliances possible; partnership f.e. is important within our company. Partnership is often an issue when we start thinking about entering into new markets or approaching new customers. How do you address new markets? How do you reach new customers and how do you meet their needs, etc., when you starting to you push into the new markets? Partnership is then less of an issue when it comes to the internal skillset which should be created. The question is, do I want to create industry-specific solutions and skills? Or do I want to buy these skills? There are always niches that we cannot fulfill or which we are too big for, to create them on our own because the market is too fragmented, etc. Then we clearly have the internal question whether a partnership strategy could be key for success. Take machine learning again. Are there strategies and global trends which can be established or which are relevant? Which trend is it following?

A (steps/approaches): We have a three-part matrix: What do we build ourselves, what do we buy into, and what we do through partnership, always depending on the question: What is currently available on the market? For all three areas, it is necessary to write a strategy and to consider what I am able to do in the three areas. Then we have a board meeting and a board presentation of the

strategy, plus a discussion in which we compare other opportunities and other strategies and then find derivatives for every strategy and as result we define for all three parts — build, buy, partner — a specific strategy. Afterwards we plan the organizational part, which means working on how the topic and needed resources are distributed between the departments, etc. Buy: If we have decided we want to buy a special add-on, then we will start looking at these five targets. We build a team or at least one person is responsible who works on the respective topics, examining the investors and the names of who is now invested, etc.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Which concerns and obstacles are most likely to occur in your company, which can hinder the successful merger?

A (success factors): Well, we can go through the process. So, first time is an important issue in any case. How fast can we receive the necessary skills? Do we have to build or to buy? What are the options, build by partnering? What is available in the market? Talents are seldom as good as targets in the market. Then the next question is: Is the company already on the market? And does it have a suitable ownership structure and the overall subject fit? If there are companies available, in most cases the company is not the best fit in terms of one's own company. Can the culture be easily integrated? Usually, a target contains at least one part which is not necessarily needed or wanted, but is bought to get the suitable talent/skills. The integration is further downstream and is hardly an issue with us this early in the process, so it is not a deciding factor. Integration is not decisive. Another important factor that plays a role is the sales and profit the company has already generated. That means that the company has already shown that it can generate revenue. Moreover, how many customers do they have and how is the customer growth going on? Then, furthermore, in larger M&A transactions, partiularly regulation issues as well as legal restrictions are to be considered, etc. Risk is also a very important aspect. What risks do I buy when buying the particular target company? This has to be evaluated accurately.

A (obstacles): What is important for us? The purchased target should fit well into to the overall strategy and the most compatible company should be found. In the ideal case, it fits into the overall strategy of this department, which we defined previously. It may even give us different priorities, for example, what would we need for machine learning? Machine learning skills, the business-to-business understanding in the best case scenario also business skills, we look for who has already built a relationship with the customers and then we look for a clear definition. A clear definition is a good indication that the process will proceed successfully. Another point to consider is that the market is relatively tight and there are only a few available targets on the market. But if one company is able to identify these trends maybe just one year before the competitors, you can have a head start and advantages from that.

Q7: (Performance)

- What do you think about "time matters" within the process?
- What do you think is more important; to speed up the process at the expense of quality for evaluating/planning; or to run extensive planning and possibly miss the opportunity?

A (time): Time is very important during the process. If one concrete trend or one particular topic in the company pops up, for example, a topic like machine learning, then we have a relatively fast ride on that issue. If it is clear, that this topic becomes a popular issue, and all tech companies start upgrading their portfolios with this feature, then success is highly depending on time. Then we have to be fast. Because when other MNE companies like x, y, etc. seem to be upgrading their skills in this area, it is important to not lose the connection to the competitors. Then speed is a big topic. The next board meeting is only a few weeks later, and when it is then clearly defined, the process speeds up and a particular buy can be made within a few weeks.

Q8: (Performance)

- Do you consider available empirical research and its results in your target search process?
- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (empiric research): Our strategy approach is comprehensive. Of course, you look at the market, the size of the market and trends. This is what we do in detail and with great effort. We use market research companies like x, y etc. This, in any case but that is not designed on a specific merger but more general, based on this research, targets are evaluated and screened. But we do not include empirical research in the process.

A (sources of information): Such as scene talk. What's represented in the most popular fairs. Sales-relevant criteria also. When a company that has already proven itself, has already sold its products and generated actual sales, or already has a customer base, of course, then it is of much more interest than companies which have only the intangible skills to offer but haven't sold anything yet. Therefore, we are at fairs of course, too, looking out for possible targets. This is a very important source of information. And supports to gain further information, which companies are examined for certain trends, and not to examine only companies which have not reached a certain minimum size of turnover.

- Interim Q: What is your strategy? Do you want to include more start-ups or more mature companies?

A (interim Q): This is very interesting. Because you can go with different strategies. We have chosen the strategy, geared toward more mature companies. Our company buys firms that have already proven to be able to succeed on the market, which have generated already minimum sales or have a customer base etc. In addition to the general risk the risk in start-ups is much higher, the available assets are actually nonexistent. Trying to buy only intangible skills is not our type of strategy because you can easily hire the talents you need, normally. Therefore, buying a start-up is another type of a strategy. I would say buying start-ups, can make sense, but it is more into exploring the future possibilities instead of exceeding and improving the current situation; This strategy includes to explore very far in the future embedded trends and it is more into doing actual research on new technologies f.e. instead of developing real market-proven products you can sell in a shorter term.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization): This is always a topic for discussion. Quite a lot people are involved in our company, ranging from special departments to employees who see a specific target and say we definitely need this particular technology. On the other hand, there is the complex process which I described before with the board discussion. This I think, already is very close to an ideal process. You can of course always optimize something. The board could take more time to identify the right choice, or the study could gather more information and budget more time on it, etc. But one issue that we have already learned from is that before the negotiations were completed, we should not make any concessions in the negotiations towards the target's management. If the managerial staff already receives concessions or exact packages for leaving the company f.e., etc., this makes the integration process much harder! We were quite naive about this issue up until two or three years ago. We saw the consequences with the culture of x and the employees we didn't know beforehand. As far as future improvements go, thinking through the process a bit further back, because these are actually already integration issues. This could be one of the important issues to solve for the optimization of the M&A process in the future.

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/organizational form/industry/strategic fit

A (attributes): I think I am too far away to tell you how the process is working in detail. But of course you have to put a generic level over the individual process. The skills of the employees, customer access, sales, profits—criteria with universal validity. There are always some criteria on a more generic level, but anyway, every M&A transaction is very specific.

Q11: (Interrelations)

- Do you consider integration issues and risks already in the pre-merger phase?

A (interrelations): Very subordinated and almost not included into practice at all. In the pre-merger discussion, there is always the question what happens with the management of the target companies or —what happens with the CEO of the purchased company, where is he settled and

who has he to report to after the transaction, etc. This is usually clarified during the negotiation phase. Things which can make integration easier afterwards play a very subordinate role. But there is a good reason for it: There is often just not a huge offer of available targets out there!!! You cannot go and work on these issues in-depth in order to not miss the opportunity at all. But that is of course and industry-specific issues. If more targets are available the power of negotiations are more on our side, of course.

A: To think through the actual integration issues earlier would make sense, particularly when not only the conclusion or the purchase is sealed, but also critical concessions are already being made. When the negotiations already include such concessions, you take part of the integration process into the pre-merger process and that includes the problems afterwards. The best case probably is: I buy a company and have zero concessions regarding what happens to employees/CEOs, etc. Then I can turn the process around and I can enter this process without any boundary conditions, which is again mostly not the reality.

10.4.3 Interview C:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is the level of process maturity in the M&A process (ad hoc, defined, managed, controlled, repeatable)?

A (experience): I work in the corporate strategy group at the moment. That means, we are generating input for the M&A department. We define areas of interest for the company. Where shall we grow organic and where externally. In the specific M&A processes, I do not participate in detail. The M&A is done by our department corporate development. Previously I have experience from working with a big consultancy, there I participated also in M&A procedures and several due diligence processes.

- Interim Q: Please give some explanations about the certain process of defining a corporate strategy which includes external growth opportunities. Such as decision-making processes. Steps included etc.

A (interim Q): We have an overall business strategy, which is tracked every two to three years and which is adapted depending on the current market environment. This process is a so called refresh process. Where we define additional topics or remove other topics which have become less important. E.g. cloud was a big issue from one moment to the other. Also a new outline of the portfolio and furthermore another strengths- and weakness-analysis leads to adaptions of the overall business strategy objectives for the future. The examined weakness gaps then are resulting in the new setup of single tasks for our M&A department. A good example is the decision whether we want to enter new markets because there is often potential for external growth because we can’t develop everything from inside.

- Interim Q: How is the strength weaknesses potential examined and identified?

A (interim Q): There is no general process on how this decision is made. It is a dialogue between board and our departments where we have typically a strategic overview including important key measures for success. Questions are: Where are we? Where do we want to be next year/in 3 years? What did we achieve? What are strengths and weaknesses? We define then afterwards more in-depth topics which are to be considered more detailed afterwards. This process is iterative. F.e. we examine through the meetings: We didn't achieve objective xy. Why didn't we? The next board meeting includes explanations and tasks to do in order to find options to close the examined gaps. M&A then is a high-frequently used option within our company.

Q2: (Consultant approach)

- At which stage in the process is your department generally approached?

A (approach): The M&A department and our department are of course related. Both departments are involved from the beginning. During the board meetings specific to dos for us as well for the M&A department were defined. Rethinking is made about markets activities competitors how strong is the own portfolio and what should be considered to buy additionally? When we take the decision to do an acquisition, M&A is in charge to screen the market and defining potential targets. The other way around is also possible. Then the M&A department tells us from interesting targets and we check whether this targets could fit in our strategy but this is less often happening yet.

Q4: (Opinion based: Perceptions)

- Does your company have very specific perceptions about:
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.

A (alternatives): Exactly we have mainly partnering or partner management embedded in our strategic organization. There is a third department which is working together with us very close and the M&A team. They are also in the process from the beginning to evaluate potential

partnering options. The fourth team is our portfolio management team. It is of course another alternative to build assets on our own. Depending on the decision made, there are setups with to dos for any of this department afterwards.

- Interim Q: When do you make a setup for the target price? When is the investment framework defined?

A (interim Q): This is on M&A side particularly. But we do have corridors in which we generally look for investments. First is a strategic M&A and the second a so called tuck-in acquisitions, which are smaller acquisitions with twenty to thirty persons only. This is something generally defined by the corporate strategy previously. After the areas of interest were examined and the type of proable acquisition settled, we suggest closing the gaps through tuck-in or bigger acquisitions. This is generally easier and a shorter process though!

Q6: (Opinion based: Performance)

- What are typical risks during the pre-merger process and how do you address these?

A (risks): We define risks and chances in the early stages of the process. To be able to react immediately on market changes and to avoid the risks of being too late. Typical other risks during an acquisition is the proper evaluation fair value of the target on the right data. Is this evaluation justifiable? Different departments evaluate the chances and risks coming from individual targets. Questions are: Is the intellectual property useful? Is maybe the target overvalued? Hypes and trends? Which do we face at the moment? Can we include the target in our portfolio structure, is it complementary and does it close any defined white gaps or do we have something similar like this issue already in our portfolio and then as a result it could be that we have to shut down another feature already provided, which maybe could lead to losing customers etc. It is definitely bad when we buy something which we already have therefore this must be handled carefully.

- Interim Q: In the evaluation of success of a transaction—Is there a learning process? How is the implementation into the premerger process again and into the strategy process?

A (interim Q): For every transaction we have business cases for several years in which we particularly evaluate the success of a transaction. Normally we leave the bought business first as a stand-alone company to in order to avoid the loss of talents which is mostly value driver in our transactions. This is very typical for our M&A process management. The loop to the overall definition of our company strategy is done too. The strategy is underlined by a long-time financial plan and therefore we have a value driver model, which clearly defines how the market is developing, how the transaction is evolving and how this development is behaving, compared to our internal market model. Are there huge gaps between market and our company or are we maybe better or worse than the internal estimations before. We can see then also whether we built on the right trend or whether we took a false direction with our strategy. Where are we today and where do we want to go are again questions to be answered to evolve the strategy again.

Q7: (Performance)

- What do you think about “time matters” within the process?

A (time pressure): From corporate strategy view. We have to move quickly when other competitors start doing something. We react with tasks and allocate them to the departments as fast as possible in order to stay competitive in the market

Q8: (Performance)

- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (sources): Everything we have like own research, white papers, perception documents. We have another own department which is handling the competitive market intelligence. We do screenings of the competition at all time. Our own market models, which define trends and developments etc. in our market industry. We also have something like a quantitative bible which is used

- Interim Q: Are there successful/not successful M&A examples and what did you learn from them?

A (interim Q): We started relatively late with strategic acquisitions compared to other companies. But we do not have a big failure rate at all. Of course sometimes the business case was not fulfilled as we expected and estimated but a real failure is seldom and not available here as long as I work here. All acquisitions done are still important pillars in our portfolio.

- Interim Q: Why is your company much better than your peer groups in doing M&A when the overall failure rate is often examined to be between 50-80%?

A (interim Q): These are only speculations: We are consequent in leaving the business a stand-alone first. We do not have that much operational synergies with exception of interface synergies which is one of our strengths for sure. But there is no such thing like synergies f.e. in the broad examples of car building factories. This is the first issue and the second is, that these targets are evaluated very carefully. They make 100% sense in our business portfolio and they are significant extensions in our portfolio. They are complementary not in order to gain growth only! Acquisitions are generally a massive step forward and therefore justification to shut down older systems is easier done. An important step is to be successful with value adding decisions instead of doing only transactions based on estimated synergies. These expected synergies often are not realizable anyways and then we destroy value instead of adding value. In my opinion complementary acquisitions are more value driving. Our company does not have typical growth acquisitions. We do not buy only market shares, but evaluate assets on its intrinsic value.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization): The communication between departments and also that the M&A department more proactively screens targets in markets and industries of interest. Today we have mostly a top-down approach. First is the strategy made, then tasks were defined and market screening starts. It was a potential to optimize this the other way around. I mean than the M&A department tells us which targets are actually available, where are chances, which targets are on the market with the right sizes, which are complementary targets, which have the right ownership structure? Smaller

tuck-ins f.e. we are always able to do and with a bottom-up approach this would be encouraged more. Also if we say we want to do a big transaction it would be more efficient, when M&A has already some targets in their mind and suggest different targets to the board on a proactive approach instead of starting the screening from the scratch afterwards.

10.4.4 Interview D:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)

A (experience): My firm is established since 2003, we are an internationally established company as M&A boutique with a very strong focus on a particular industry. These are two differences which separates from us to other M&A boutiques. Most of the small boutiques are national generally and less focused on a particular sector. These last 13 years, we did around thirty projects, with twenty-five M&A transactions, the other were more into strategy consulting and pre-merger consulting or other part projects etc. I work here at X since 2011, am partner since 2013 and I am involved in all projects. Most of our projects are from the seller side, due to the current industry requirements. On the buyer side are often due diligence processes/ screening etc. On buyer side more transactions are systemic M&A processes where we support the buyer side. Today we have also a project from buyer side.

Q2: (Consultant approach)

- At which stage in the process is your consultancy generally approached?

A (approach): We often approach proactively our clients. We identify interesting branches. If companies from buyer side, come to us directly it is relatively late in the process, there were already some negotiations or at least the M&A topic was internal considered to a certain extent and then they only look for the advisor to support. Still within pre-merger stages but very late, it is often the case that already took place some personal meetings.

Q3: (Consultant approach)

- Until which stage is your company mostly integrated into the process and are there differences observable regarding different kinds of companies/transactions?

A (involvement) We attend the whole transaction process from a to z the beginning to the end until negotiations and completion, what comes after depends on the side we attend on. On the sell side it generally ends more or less with the completion of the deal. On the buy side there is of course a further process of integration afterwards but this is not necessarily done by our teams.

Q4: (Opinion based: Perceptions)

- Does your company have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.

A (strategy): This is examined to be very different. It depends pretty much on the client. Last year as an example we had somebody, who had the chance to take over another target. The client came pretty early in the process to us with the question for support. With evaluation issues and other things. We attended this process to the end This was more an opportunistic approach without any strategy from the beginning. But there are also clients which have a very clear strategy with specific target search profiles existing in the company. This is most common in our industry. To approach previously clearly identified targets and to find more information on willingness etc.

A (alternatives): Absolutely possible, e.g. JV we saw a lot when companies entering foreign markets like China, where it is still difficult to get a maturity in a company. In the past we had some Joint Ventures there. We do take this topic into account whenever it make sense. More often we don't have just an ordinary sell but a trade sell, is a management buyout, this I think is a good solution particularly when there is a capable management existing in the company. We provide this with our clients when the environment fits to solutions like that.

Q5: (Opinion based: Motives)

- Which are the major motives for M&A

A (motives): Growth and market consolidation particularly within the last years. We had some transactions in inbound market. There the incentive also was based on consolidation with the focus to do some regional expansions. This is in Great Britain as well as in Southamerica. In both countries growth in market shares and to build an over-regional player who is responsible for more than one country was objective within the last years.

- Interim Q: What do you think are the most important services you can support your clients with

A (interim Q): The know-how M&A and their processes are industry standard and I expect, that they are already well known. At least on sell side, there the processes do not differentiate pretty much. The know-how is the same cross-industry. For our clients this is of highest value because do not have this particular knowledge often and when they enter such a process for the first time maybe they stay in front of a process which they have no knowledge about. They have no experience with this. Therefore it is important for them to have somebody on their side who knows the process who knows what exactly has to be done, who has knowledge about the single stages and steps within these. With our niche focus on a global extent we differentiate ourselves from the competitors and with the network we have also. I think the network actually is one of the most important factors we have for this process.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Do you think soft factors are crucial point of success? (e.g human factors, communication, organizational culture, business environment etc.)

A (success factors): Most important a situation analysis of the own company. To configure a straight strategy and answer the questions: What do I want at all? To find a decision. Do I want to buy or sell yes or no. Often there come up some doubts during the actual process and if the interest is not given for 100% then the success rate for a transaction decreases. But if the willingness is definite we have good success rates. Another important point is HR management! HR management must be existent in the company. This is the same for all transaction types. The management team has to be clearly defined previously to ensure success. Another important success factor is the validity of the information base! The better the higher the success factor. Lack of information is a big issue here. The management information tool mostly lacks during the process and often is not as well established as we wish during a transaction.

A (risks): Within the last years: Risk increases mostly externally. Political risk regulatory economic. Schweizer Nationalbankentscheid in January 2014 or this summer the Brexit. These a clear risks which are hardly to handle and difficult to estimate beforehand. This risks can bust at the last moment a successful transaction. Then on the other hand: Internal risks like profit warnings when the budget cannot be hold or human resources and management team issues. For example it is not included into the process adequately and then the management team opposes against the endeavor.

A (soft factors): Absolutely! Definitely relevant factors f.e. on sell side even more than buy side. Concrete requirements on ownership structure types. Strategical investors were often neglected due to cultural factors or other concerns f.e. particular big international operating finance investors which are often from the beginning excluded as acquiring company. Often this could be a subjective decision. Clients sometime do not consider objectively targets but have a wishful thinking about the perfect candidate.

Q8: (Performance)

- Do you consider available empirical research and its results in your target search process?
- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (sources): Well sure we have research on potential buyers and strategical buyer, which are important, or private equity companies. Is the underlying reason to have strategical outline than of course we go for strategic investor, for market consolidations maybe more into a financial investor. Research on different criteria which are different depending on market industry size etc. are examined in communication with the client on criteria and tools we use and then the research starts based on these defined criteria.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization): Often we can see in practice that there is a lack in the awareness of necessity of preparation for M&A. Also the imagination is less existent. The complexity is often underestimated and how detailed also the due diligence phase is and everything else coming after the closing (buyer side) means; the time and effort you need to make a transaction is highly underestimated. The detailed information/and preparation of information is relatively difficult to get straight in a format which is meaningful and usable. It takes some time to make the client understand how important the adequate information base is. A better basic understanding about M&A market and transactions would be helpful and supports the overall M&A process going to be better, because it is more public today than ever before, and it becomes more and more a typical component of international growth strategies. Well it is very different. A difficult question. As we are not mature with this process yet. Also another point is the management team, it should be considered way earlier in the process to define the structure afterwards and then not to humble over issues coming up later.

It is an important point to discuss different opportunities and to figure out where you want to go and how you want to get there. Our clients are often 20-150 million Euro, where the entrepreneur has an imagination but no real process and no clear structure how to get there, what you could see on the contrary in bigger companies.

Q11: (Process)

- Do you consider integration issues and risks already in the pre-merger phase?

A (integration): This depends on the situation and transaction. Is it necessary to early integrate the target fast? Example, where we had already in early stages integrated due diligence and HR issues. In the KMU area the post-merger integration is from smaller importance because the synergies can be used not in the beginning but from later stages only. The company is then mostly handled as a stand-alone company first in order to not destroy business value of the target by integrating the company. There the actual synergies emerge after years and not immediately. Synergy use is very late in the process

Q12: (Opinion based: Interrelations)

- Do you think that single stages within the pre-and post-merger phase influence each other? If so please specify.

A (interrelations): Yes I think so, if there is no clear definition who is in which management positions during the pre-merger phase and after the process in the post-merger phase this can bring up certain issues. I think it is an important point of interrelations between pre-and post-merger stage. Specifically another critical issue is human resources, which is very critical through all stages. Earnings, qualifications and motivations etc. are often uncovered very late during the overall process and therefore they can emerge as a critical issue when the transaction is already in a late stage. This information of course is often not uncovered out of data privacy reasons but nonetheless it is important information which we mostly gain too late during the process. Another issue is that we have sometimes quite late and only on many requests often, information releases on important things such as salaries of the workforce and contract etc.

10.4.5 Interview E:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is the level of process maturity in the M&A process (ad hoc, defined, managed, controlled, repeatable)?

A (experience): Well, I work in the business field of M&A since more than thirteen years. I started in a bank as an advisor, then I worked in a private equity company for five years and after that for five more years. Today I'm working in corporate M&A and I would say, that I have supported closing deals about twenty to thirty, the size was ranging from five million to fiteen billion.

- Interim Q: Are you more on the buyer or more on the seller side?

A (interim Q): In my current position, it is mainly on the buyer side, because we are not selling anything at the moment. I think corporate M&A will be usually between 70%-80% on the buy side and maybe 20-30% on the sell side.

A (maturity): I think the acquisition and transaction process is quite mature and professional today. I'm working with this company for three and a half years today and leading the M&A department for one and a half year. And I think we have always been quite good with the our approach of transactions. We have different templates, processes, which are already pretty well established, what we have been improving over the last 18 months is, the level of evaluation. We always had a DCF approach (discounted cash flow) but less multiples in use. This is something we strengthened lately in our processes. We do have some kind of financial criteria, which are common agreed with our executive management. Before we started developing this it was less clear on which basis the evaluation was made. This procedure was introduced one year ago. We have a good, well established M&A process, which is something our clients appreciate pretty much. What was not that well established were other stages such as the market screening and target finding process. We have three divisions and sometimes the business units have dealt with these

processes very differently. At the moment we are introducing one standardized M&A process, where the group M&A team is more involved into the screening, finding and approaching target process. That is something we are establishing at the moment and from what we are expecting some advantages

Q2: (Consultant approach)

- At which stage in the process is your consultancy generally approached?

A (approached): We are often addressed when the strategic plan is created by the businesses and we are more kind of supporting and helping then. From the beginning the process is as following: when the individual businesses say "we want to exploit our business by undertaking some M&A actions, they build first the strategic plan and then we are able help to screen the markets and help them to find targets etc..

We help and support our businesses with the first evaluation and with contacting the targets. We have basically, similar to the transaction process, a business owner for the M&A project from business side, and we are the project owner from the M&A side. So we do have to persons responsible for the endeavor. We have a database setup for all businesses where the targets are filed and sorted, then we set up monthly or bimonthly calls in which we go through the target list and discuss the targets, and actions which are required f.e. whether you need more information, whether to approach individual targets etc. We rank them by the specific business criteria which were developed and then we discuss the targets.

Q3: (Consultant approach)

- Until which stage is your company mostly integrated into the process and are there differences observable regarding different kinds of companies/ transactions?

A (integration consultant): involved only until the closing. We also have a team which supports the integrational part as well as the due diligence, but we within the M&A team, we are not directly involved into this stages.

- Interim Q: What is from highest valued you can provide for the businesses in this process?

A (interim Q): structuring the process, keeping the activity alive, and serving with the first contacts

Q4: (Opinion based: Perceptions)

- Does the client companies have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - What aims does your company want to achieve through the transaction?
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.
    - How to approach the overall M&A process and its single stages?
    - Necessary steps to undertake in order to achieve this objectives?

A (strategy): First of all the business needs to be stable and furthermore the individual business needs to have a strategic plan which is answering the questions: how to grow and in which area and a good justification for this plan. Then the business needs to have the capability of the resources needed in this process and have to provide a plan how they are going to allocate/finance this growth plans. Only if all of these criteria are satisfied by the businesses, they are allowed to start looking for acquisition targets. Another important thing is the strategic plan. The business needs a clue, which field of business they want to grow and also if it is a shared acquisition with other parties/businesses and then they have to build a strategic plan first which helps the business later to justify the acquisition with this specific target. This is very important! We need to have a strategy first! Because M&A follows strategy! Not the other way around. This is the stage where we are involved and support with screening certain areas in which the business wants to grow. We furthermore help them to define whether this is an area which is strategically attractive and whether there are even targets available that fit in the company regarding to the criteria we defined previously and that we are looking for.

A (strategy): Often our business did not have a structured process in the past, that means when a company popped up that was for sale, often people found many reasons why to buy this target,

they were emotionally involved. So today we have this M&A readiness report. Businesses first have to do a strategic plan which must be approved. And when this plan is approved by the executives, the companies are allowed to go out and find companies that fit into their strategic plan. You need to have a strategic vision or we also say M&A trust. In which they define where they want to grow.

A (alternatives): They are less important. In general we want to own and control the businesses. Sometimes it is the case that JV makes some sense, we actually do have some of them but it is not what we are driving for. It is more of an exception.

Q5: (Opinion based: Motives)

- Which are the major motives for M&A
- Are these motives dependent on different factors such as industry/ size/ organization structure etc.?

A (motives): Depends on the businesses. Often motives are gaining market shares, or closing market gaps in the company's portfolio, buying products that we lacking in our portfolio, closing regional gaps but also in other areas growing into new markets and extending the market scope.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your the measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Which concerns and obstacles are most likely to occur in the clients company, which can hinder the successful merger?
- Do you think soft factors are crucial point of success? (e.g human factors, communication, organizational culture, business environment etc.)

A (success factors): I think first of all M&A follows strategy and not the other way around. That's important and second structure! To have a structured process is crucial in such a complex environment, and thirdly I would say, defined criteria as a crucial success factor.

A (typical risks): A typical risk is, that people have some bias towards a company that they like and then they build a so called strategical rational around this target and then they find reasons why they should buy it. And not the other way around, how it actually should be

- Interim Q: How do you try to avoid this?

A (interim Q): By forcing the businesses to have a strategic plan first.

- Interim Q: Is in this stage already the investment framework included?

A (interim Q): You say you want to grow in a certain market and then only if all parties agree on that plan, then we do a screening and if a company pops up, which was not in our originate screening process but fits in the strategic outline, than it is proofed also whether it is worth it to invest the money and time in it for doing an in-depth evaluation as well.

A (soft factors): Yes it is important. One of our criteria is ease of integration, so it is important from the beginning to screen targets from which you know or think that it will have maybe difficulties to work with culturally. This is not really often the case, because we do not buy direct competitors a lot we go more into product portfolio gaps, into new markets, in our company it's rare to buy someone we have directly competing with for a long time and therefore having uneases of integration based on competitive issues with the company

- Interim Q bidding process: Do you consider also bidding processes/ have you joined them and do you think this makes a difference to bilateral negotiations?

A: We have been in some bidding processes as well but we try to avoid this as everyone else generelly does, too. If we do not have any other choice we go for one, but we haven't been in one recently.

Q7: (Performance)

- What do you think about "time matters" within the process?
- What do you think is more important; to speed up the process at the expense of quality for evaluating/ planning; or to run extensive planning and possibly miss the opportunity?

A (quality/ speed): Both: You should not discount anything on quality but especially in a transaction process, we can be quite fast without losing any of the quality because we have this processes set up already. Time pressure is more a due diligence topic. You need to know what you focus on and you need to know your value drivers very early during the process. This is also something which helps you from the beginning. When the strategy is defined from the beginning and the strategic rational is clear, then you have a good preparation. Of course you have a certain checklist for the due diligence like financial and legal isuues, but you have to focus on value driving items mostly during the process because these are in the end the factors which make the transaction successful. So if you say your value driver is x, than you have to focus on this. Following your strategic plan and your strategic rational you also prepare for the integration later in the process. What you have to do is to set this M&A procedure up as one comprehensive process from the start to the end focused on the value driving factors.

Q8: (Performance)

- Do you consider available empirical research and its results in the target search process?
- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (empiric research): No

A (sources): internet, trade fairs and knowledge of the business responsible persons

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization potentials): I think we are good when we say we are establishing this processes I already explained. For the screening process which is still more learning by doing, we try to get all people involved and try to come all together and getting this process a head start. I think furthermore that an M&A team shall help the businesses not only with the transaction process, what they already do but more with the screening process. We need to switch more into an proactive process, in which you go out and screen the market and as many companies as possible,

an being disciplined about applying your criteria and avoiding at the same time the opportunistic approach and the chance for getting emotionally involved and losing the objectives out of sight. There are still issues to be optimized.

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/ organizational form/ industry/ strategic fit

A (attributes): I mean this is very different. The criteria are very different depending on the individual businesses. Some businesses are quite different to others and therefore the criteria change. Like a mini conglomerate. It is not from a business perspective with different criteria. But we introduce now, what we haven't had before some common criteria, f.e. like a minimum sales criteria, before that any size of company could have been approached through the M&A process, but now we establish a different sales line for each business line differently, because the businesses are from different sizes as well. For each business units there are different minimum sales targets, but minimum is 10% of sales of the business unit. We also established a kind of, before we start with the screening, an M&A readiness test for each business. Each business for different stages, has to make this test and to organize a structure how they want to approach this.

- Interim Q: How to you exactly define your criteria?

A: For example if you say you want to grow in chosen markets, consumer healthcare and then you look on targets which may fit with your company, but if the only do have 10% sales in consumer healthcare and the rest is in another area for example industrial applications, then you need to apply this correctly. If you want to grow on scale in your industry, then you have to look at targets which are strong in sales in the area you are looking for, whether they have the applications the market is looking for and the market share which is requested to achieve, it must be big enough, the products are up to date, they have good customer relationships like that.

Q11: (Process)

- Do you consider integration issues and risks already in the pre-merger phase?

A (integration issues): We want to avoid a gap between the two stages/teams, therefore we have our integration team which is involved into the due diligence and the definition of the value drivers in the acquisition. Important are synergies establishment and evaluating and finding strong value drivers. Then we prioritize important topics for the integration team, so we try to avoid any frictional losses from this process.

10.4.6 Interview F:

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is the level of process maturity in the M&A process (ad hoc, defined, managed, controlled, repeatable)?
- Does your clients often have an established organization for supporting the M&A process in all phases?

A (experience): This is my second employer. I already have 20 years of experience in the working environment of M&A. I did five years of investment controlling with my first employee. After the first two years I made there also the part of M&A investment controlling. Now with company x, my second employer I was mostly in the M&A transactions department. Since 14 years I'm solely in the M&A sector in which I attended several transactions.

A (maturity): The maturity is very high, we did several complex transactions in the last fifteen years. We bought many companies, and also we did investments and purchased shares in many companies. Even more since the 2000 we did many big transactions because the companies had much liquidity in their balance sheets and because we wanted to grow on the one hand organic but on the other hand also through external growth. This was something many competitors did to a large extend these days. There were many players focusing on aggressive external growth and in order to go with the competition, big transaction were usual that days. There were successful transactions but also many failures and therefore many players professionalized, reviewed and adapted the M&A processes recently. Today we have also an M&A guideline which regulates single steps from the M&A process. A big corporation like we are, does have guidelines for the individual processes and in that environment we have also regulated the M&A process on a more detailed level. Today it is a highly mature process I think. The process is deeply implemented/ with a steep learning curve and an experience based process when we started the improvement process. Also the issue with the implementation of consultants is considered these last years. They are always involved during the due diligence, for tax financial and legal issues. Partly also within

a technical due diligence or a strategic due diligence when the business area or the company is yet unknown for us. Consultants do evaluate the chances and risks for this particular market, growth potentials and profitability. Because they may have deeper knowledge in this particular area. Through this process the professionalization also with investment banks, is growing. Interaction between consultancies and us is very important, because only when they are integrated and a good communication is set up, then we can learn from the approaches and methods which the consultants use in order to approach the process steps and sometimes we can, as a result from co-working, adapt our process to make them more efficient.

A (department): We do have an M&A department, which does transactions, disinvestment, joint ventures etc. 50% constellations, investment models (51%) to consolidate it fully, but 49% are with other shareholders to not take the payment burden all alone etc. We definitely do consider and have knowledge about this possibilities.

Q4: (Opinion based: Perceptions)

- Does the client companies have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - What aims does your company want to achieve through the transaction?
    - Possible alternative approaches like strategic alliances, Joint Ventures etc.
    - How to approach the overall M&A process and its single stages?
    - Necessary steps to undertake in order to achieve this objectives?

A (strategy): There is a structured planning process. The first thing you review every year is your planned strategy. This process is annually ongoing, a market analysis is done every year, than the plan is reviewed, and if necessary it is adapted. Markets, competitors, trends and technological changes are researched and analyzed as well. The legal framework is examined, Porters five forces etc. everything you use generally when doing such market/business analysis After that, there comes the mid-term planning. We know today, where are we in the environment of our competitors, what are our strengths on which we build and then we can consider changes or staying in the same industry and other slight adaptions. Questions like: How do I estimate our portfolio? Where do I need further applications?, Where do I want to buy further resources? Where do I want to grow and where disinvest? Are relevant If I decide to grow: How? External or organic? If I

decide to disinvest; it is selling or closing parts?. This review happens annually. Afterwards based on these results the mid-term planning is done, with a profit and loss accounting sheet, done by all relevant subsidiaries, this is consolidated bottom to top. This is of more effort for huge concerns of course but more or less the same for midsized companies. There also the operative departments which have to do their planning quantitative particularly. On the contrary we have the qualitative strategic planning as a result of our evaluation criteria from the quantitative side. To valuate assets is important as the underlying base for an adequate planning. The planning must be estimated on adequate numbers and needs to be relevant and reliable.

A (alternatives): Yes we do everything! Sometimes Joint Ventures have to be dissolved. Depends on the partner and it is important to speed with the dissolving process and therefore it is important to have certain agreements for the separation of the companies. This is one of the most important issues in Joint Ventures.

- Interim Q Can you explain the level of professionalization of M&A structures within companies of different sizes?

A (interim Q): I would say from 1 billion Euro turnover and more, there is at least one person responsible for M&A. With smaller companies I would say, there is only the controlling department and normally the controller having the most experience, also does the investment controlling and M&A business topics, but with a annual turnover over 1 billion there should be one specialist. Then there is a high grade of systematic competence available. Between 500 million and 1 billion only with M&A controlling and it can vary to a high degree and beyond 500 million, I would say this is very hands-on, less professionalized and a low level of overall transaction know-how available.

A (steps to undertake): Well we either have a target from an opportunistic chance or a screening process etc. a screening process would be a top down process. It takes place when the management finds particular gaps in the portfolio of the strategic outline for the company. They examine available weaknesses and then the management could consider to buy externally to close this gaps. Then the active search process is started. Top-down screening for targets which could fit in our company. The second case is: In a business area in which we are quite established and have strengths f.e. from market knowledge and we opportunistically have the opportunity to buy another

company that approaches us. Either an investment bank or the company owners themselves approached us in this case, nonetheless the best would be, of course bilateral negotiations. Then the most important is to check the strategic rational/ the business rational. This is the important basis for further actions. If the target has the potential to be integrated into our business concept, it is considered. Because money is not as much available as it was in previous years and not as much management capacity as previously to do just random choices only on a cash-flow basis or choice a "good-looking" feature and hope the best. Such empty vessels, we had in the past and we learned from it. We need to motivate the people, very early in the process to display the strategic rational and to not doing the same mistakes. This is the most important, and it happens very early in the process. The business strategy must fit to the company. The question is: How does this target fit in our strategy? The leadership concept must be examined and the integration concept needs to be setup. And all the numbers, like value, cash-flow, asset evaluation etc. they are considered much later in the process. In the 2nd step. M&A is not just an evaluation of the company and then go for it, but the fit and the questions how do I integrate this target, how do I lead the new company and how is the strategic fit towards my own company? The qualitative issues are crucial. First where is the sense, second quantitative, which are value drivers, what are the actual values, what cash-flows can be expected, which is the risk profile of the target, what are the capital costs, discounting rates used in the evaluation etc. This is also done step by step but within the second step. Overall this process is highly professionalized.

- Interim Q: Integration concept. What are components of this?

A (interim): The overall integration procedure. Most important are personnel issues! Today it's called pmi post-merger integration. Clear suggestions for personnel issues are made here. Responsible persons for single steps/phases and criteria are selected. An organigram for the integration is requested. Who is the responsible person for the overall M&A transaction? These are generally people from the highest management level. Normally this is the business manager of the department which the transaction is made for. Why? Because this is the responsible manager who made the strategical rational. He defined what he exactly wants for the department and what is his strategy behind it and needs to be able to justify the selection on base of the strategic fit. First there is a person responsible for the overall transaction, second there is a person responsible for integration issues, normally from the same department and this person is the leader for the pmi-

project and can choose more responsible persons for specific parts of the integration. Balance sheet integration, technical integration, It topics, for every part in which the operating systems need to be integrated we have responsible persons and the project leader like me. For the first 100 days the M&A project leader is also the pmi-controller. After this 100 days we hand over the responsibilities from the acquisitions team to the responsible controller/ finance person, these responsibilities include evaluations, planning, business case evaluations, mid-term planning for targets development. The M&A project leader attends the process for further 3 months as an so-called pmi-controller and supports the pmi-leader. You can imagine a complex pmi-organigram with the names of people on it from our side first, and with the stage of higher concretization, the double names for specific tasks were displayed from both parties, from us and from the target company, furthermore a detailed time-planning and an action plan are parts of it. Day 1 day 30 day 100. Day1 is the closing day. On that day the question is, which actions have already taken place until day 1, what has been done till day 30 and then till day 100. And after 100 days the M&A- responsible leaves the project and the process is then closed for us. There is a final report after day 100 in which we list all measures and actions undertaken and the level to which extend they are done and which parts of that are then included in the consolidation, restructuring or integration etc.

The integration concept is a framework which is created before the due diligence, and which is specified step by step. Who needs to integrate more? Does the target or do we? In the beginning this integration concept is rudimentary and is to be more specified, mostly during the due diligence process. Because during the dd we gain more information and actual insights which we did not have before. But with the strategic rational and the qualitative evaluation as a first step the departments justify their motives and needs and then they do a project application to get the resources for several millions for such a big project like an M&A transaction. As a result we have a defined project, otherwise without this strategic rational this would be zombie projects. We need this regulation and this focus in order to ensure a successful project. It depends on the size whether the board or maybe the responsible department manager can give the project a go decision. In this project application it must be clarified, what resources do I need which and how many consultant days and an investment framework must be included. Then the decision based on this outline is either yes or no.

A (target screening process): There was one concrete project in the last year. We had very simple specifications: Who is in the market and what assets do they have? Relevant are also factors such as customer numbers, or know-how, assets and features which I need based on my strategic considerations. Market shares and growth potentials with a clear focus on some cost reductions was one of the leading motives a couple of years ago. Today much more importance is on know-how and technologies, to stay competitive and to be a leading player on the market. Then afterwards the relevant market is screened by either the business department or from the strategic department. Identification of competitors of course is a step, then profile screening and the question what are their major core values and strengths? Furthermore the value chain is examined, business models are to be analyzed, market models and then the decision is to make about the targets which apply the criteria and fit to us. A good entrepreneur after 20 years of experience generally knows the market knows which could be potential targets and competitors etc. the question is who is complementary to us and who is actually available on the market, who fits furthermore in our business model and then with this knowledge as base the process is started. It like dancing in the club. There is no must that something works out but if it happened, then it is generally value adding and bilateral. Another concept is involving investment banks and bidder negotiations. But this is avoided whenever possible, because the risk to overpay is much more given, then with bilateral agreements. The bidding concept is anonymous, more or less transparent and you may have sharp competitors which could drive premiums. This process is more a passive approach than our concept

Q5: (Opinion based: Motives)

- Which are the major motives for M&A

A (motives): Growth and market penetration were major motives in the past with a focus on regional penetration and end customers. Following this logic, we did many transactions. Today this has generally changed. We can imagine a matrix structure. There is a matrix setup for the portfolio. First axis, is the value chain: exploration, distribution, sales etc. as major issues on this axis, this depends on the industry. In the past the most important factor was the end-consumer. We focused on the end consumer pretty much. The other axis, in the past, is a regional axis. Today it is, technologies as value driver, what in the past was the end-consumer and regional penetration.

This has changed since 5-8 years approximately. Today more than ever in the past, these real changes come often through legal regulation etc. there is no deregulation at all. And to react on this strict state regulations we need to grow much more in niche areas not overall growth is the key anymore and we have to revalue our portfolio. We grow within these technologie affine industries organic as well as through external growth and also with investment models. The second major motives are exploration of new markets, innovations, venture capital etc.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your the measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Which concerns and obstacles are most likely to occur in the clients company, which can hinder the successful merger?
- What do you think is more important; to speed up the process at the expense of quality for evaluating/ planning; or to run extensive planning and possibly miss the opportunity?

A (success factors/time & quality): M&A is always a balancing act between the professionalization, the level of structure in the process and on the other side the individual experience plus dynamic flexibility and speed. It must be a good compromise to be successful. Between both extremum lies the key for success. On the one side an over-structured process with many templates, hands-on working and then the risk to lose yourself in excel templates and on the other side the other extremum doing it from the scratch based on experience only with less objective character. That you know who fits to me must be included definitely! First you have to know what you need and then you consider what matches to close this gap. Necessary, of course, is the knowledge about how to apply such evaluations. But the professional approach includes also to know sometimes whether the target is not matching your conditions as needed from your side and then to be able to say no to an opportunity even though a lot of time and maybe money was already invested and step back to either go back in the process to identify another better potential target or leave it fully behind. But on the other side, if you are too slow, then you maybe can’t take

specific targets either, because you are just too late or too detailed with you requirements they probably cannot meet f.e. when they are very small and do not have certain numbers or evaluations in house then of course they cannot deliver them. A golden middle way is the success factor. The same is observable with the chances and risk approach. Don't be too fast with your evaluations but neither you are allowed to do it too slow and too hesitant because then the market may be gone for good. Therefore: Chances/ risks evaluation and professionalization/ flexibility. Later the cultural fit must be given.

A (risks): A certain risk always is that the targets could go away, because they feel suddenly important and can move away from the first price agreement too search for better opportunities. For this we have the controlling regulations, to not exceed our investment framework too stay within the constituted project outline. Of course before we bid in bidder process with a binding offer we first need the executive board agreement. There is the question: Is your rational still satisfied. Is your objectives still to be applied within this target and is it worth it?

And then, if you are let's say a 250 million turnover company, you do a transaction like this for the first time and you lack the knowledge of proper evaluation, you for sure need a consultant who supports you within this process. The M&A instrumentation needs to be done properly and objective and it is important to hold an adequate psychologic distance with a benchmark. And when you cross this benchmark you have to be able to say: there is no way to follow this target anymore and succeed and consequently you leave the process then. A very common example was the Daimler Chrysler case and the so called Goldfever problem we had with this case.

We solve this risk factor through having many single process steps, with gremials included and decisions from the board which are not directly involved but see the process more from a further distance and its numbers. 4 eyes principal. One independent observer reviews the process results with a cold eye.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization): The integration management. Evaluation is quite mature nowadays. And generally this is the most recent topic. The integration management. Also other companies which

had realized that certain failures came from the execution and integration of the transaction. In the early stage the business department hast to make a framework of how this processes are approached and the relevant responsible personnel is already set into the planning. Responsible persons for the evaluation, sales numbers, names/ heads are the important factors. When you are personally responsible than your commitment is much higher than when there is only a department responsible or not even this because then mostly nobody feels really responsible and work is done less structured and with less motivation.

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/ organizational form/ industry/ strategic fit

A (target attributes): Personality, psychology and dominance are for the quality issues quite important. Harmonisation. We do not have many synergies with the IT f.e. we can work on issues only when people come along with each other and the other culture, psychology is very important to make the company work together and encourage team-work and knowledge sharing

Q11: (Process)

- Do you consider integration issues and risks already in the pre-merger phase?

A (integration in pre-merger): Yes see the integration concept is utmost important. Defining responsible persons for the project and benchmarks for parts of the projects for f.e. margins and sales numbers. Every team has to justify their doings and their numbers in the end of the day. F.e. organigrams and time planning with 1 day 30 days and 100 days logic is one of the integration issues we include in our concept paper. These are the core issue these integration issues, these interfaces are the topics on which also other companies work on at the moment. This is the new topic, comparable with balanced scorecards in companies 15 years ago. There are so many deals becoming complicated after a while and the reason is the lack of interlocking between both companies. This must work out very fast in the beginning that’s why we are within this process for the first 100 days and then we need the defined action plans and a development roadmap of communication concepts, about press releases etc. Who do I tell what, at which time. Press, market, employees etc. etc. the communication framework must be prepared as well beforehand. And the

rest is adapted from the individual situation. Too much schemas makes the process too inflexible. We tried this but it is more hindering. There must be some flexibility left otherwise you lose yourself in the structure.

10.4.8 Interview G

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)
- What is the level of process maturity of the M&A process (ad hoc, defined, managed, controlled, repeatable)?

A (experience): On seller side: I attended two selling processes with the included due diligence etc. and on the buyer side many pre-merger phases, which never were closed in the end due to the investor, who was very conservative. The last topic was a post-merger integration where we weren't included within the pre-merger but only in the post-merger integration.

The classic approach is as following: A target company comes to us with a proposal, when we consider it as potential target, then the in-depth due diligence is following for this company with M&A consultancies. It is a parallel topic between active and passive approach. It is a two-sided approach, when companies in the same industry know that they want to sell their business, they also do know who could be a possible acquirer because of their business focus. They know who could have a good overall fit between them and the acquiring company and then they approach these these potential acquirers.

A (process): There are many processes next to each other. The investment-partner/M&A consultancies screen the market for targets all day long. Then you as a company receive teaser company targets on a teaser document with rough financial key issues of the company. Then we do a first very rough assessment of the financials and the belonging company. On a very rough fact basis. Then, after that, we decide whether we want to go deeper in the evaluation process, and whether we want to research the target during a due diligence. There are many different processes as well. You have to provide offers in many rounds following each other, either binding and non-binding, than as an answer you receive more information. After the first successful round there is a next round, when you recognize you are still in a range with your price estimations from your evaluation. In the second round there is normally the "get to know", with the potential target

company management and a company visit. Then the next evaluation and assessment is followed by another offer. There are generally 3-4 rounds in this process.

A (process maturity): As potential buyer there is less flexibility, because normally the consultant from seller side is setting up the framework for the process which is more or less binding for you, the buyer company. The possibility to contact the management besides the general structure is possible but it is less done and if you do not know that there is a high chance of success for an acquisition you should leave this opportunity. The M&A consultant company normally is doing most of the work in this process.

Teaser documents are spread between “a big clique” in the business area. The player normally know each other in the industry and also the M&A consultancies supporting the seller side do have knowledge about the industry and its players which are on this market and which could be potential acquiring companies.

- Interim Q Did you also take part in bidding processes?

A (interim Q): To the bidder process. Every selling process is quite different. When there are three bidders bidding the same amount what is the factor which counts in the end? Sympathies. Or you can manage to convince one bidder to pay more. I had the experience that within the DACH states, if there were bidders from different countries a searching target company generally awards the contract for the company within the same country instead of companies from another country.

Q5: (Opinion based: Motives)

- Which are the major motives for M&A
- Are these motives dependent on different factors such as industry/ size/ organization structure etc.?

A (motives): To reach the best selling price is major motive for selling companies! Which normally is working out. Depends on: Am I a financial or strategical investor? Do I want to buy because I want to clear the market f.e. putting competitors aside? These are investors who maybe pay much higher prices because of emotional bias.

A (dependency): there are cultural factors playing a role definitely. Maybe not too much during the initial process but the later the process goes and in the final bidding there are 2/3 active acquirer companies, then we can see mostly the national bidder dominating about the other bidders. This is from my experience.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are the measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Do you think soft factors are crucial point of success? (f.e. human factors, communication, organizational culture, business environment etc.)

A (success factors): There are no general success factors. We can say it is the other way around like before, depending on the situation. When you know the market, the risk is smaller and the prospect of success is much higher. And there could be synergies. Often it is only in order to buy the competitors market shares and as a result to strengthen the own position.

A (risks): Plausible planning. F.e. if you have a huge corporation, it wants to present less data as possible because of compliance issues. Of course you as an acquiring company could consolidate to proof the numbers but this is a lot of work. We could not assess a 100% data plausibility. This is a crucial aspect during the evaluation. Less risky are transactions with smaller companies from a well-known industry. Of higher risk is on the other side a less known industry and a larger company to acquire. Because evaluation is crucial in this step and without the right database a right evaluation of course is not possible. Therefore some industry experts are often requested additionally within this stage. Because they have the understanding of the players and a deeper understanding about the right evaluation for them.

A (soft factors): Soft factors are always relevant. Questions are: What do I know about the company/ branch?, Do I know the management? Who is the seller? Etc., there are many topics I observe. But in the end of the day it is always the question whether the object itself is interesting and the branch and whether the numbers are right. There are often a lot of forward plannings handed in by the target company which are just not realizable. Based on not realizable market

growth estimations from target companies and their assessment of future market trends. The financials evaluation must be right!

Q7: (Performance)

- What do you think about “time matters” within the process?
- What do you think is more important; to speed up the process at the expense of quality for evaluating/ planning; or to run extensive planning and possibly miss the opportunity?

A (time): The factor of time is important on both sides. When you achieve the final round, the target company, or the M&A consultancy from the target company tries to keep the process short. Fast bidding processes and fast due diligences are requested from their side. But from my experience, generally this is not manageable. As soon as there are investors investing their own money in a company, they do not let themselves been pushed too much. I take the time, I need or I leave the opportunity. Quality before time. Once signed there is no way out of it.

Q8: (Performance)

- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (information): Branch experts/ teaser/ due diligence.

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization potentials): The question is not questionable in this form. Every process is very special and individual. Responsibilities, contingent liabilities. The minimal claim for information within the process from the target to be delivered. All these factors vary to a large extent. There is no classic answer on this question. The question must be differentiated into different streams like the single target, clusters or industries. In all of this streams are potentials to optimize but these are then schemas for different deal areas. Which are in a specific area like also the risks and chances varying. (Example)

Q11: (Process)

- Do you consider integration issues and risks already in the pre-merger phase?

A (integration): When I am in a final phase of a bidding process, then normally you should have taken every possible reason pro and con into account already. There are investors doing this on a very detailed plan level. Others doing it much more experience-guided. There is f.e. a difference between the financial and strategical investor. Financial investors are more the ones who are planning, planning forward on a very detailed level based on financial success. The strategic investor on the contrary does know exactly how he wants to do the transaction to reach his objectives. He (strategic investor) has his team. One of the team is doing the IT topics, the next logistic and production. They work together hand-in-hand, they do know processes and important issues from their own business. They know which data they need, they have the roadbook, and knowledge about the market and branch. Therefor already in the evaluation stage they do know much better whether the shown numbers are possible or not and whether the evaluation or the planning's shown by the target companies are right. This of course contributes to minimize the risk

- Interim Q: Are there high differences in evaluations for a company from different acquiring companies detectable?

A (interim Q): As a buyer you can't see the assessments of the other interested parties. But f.e. the financial investor deals on financial data base. This is an investment case definition. The strategic investor has maybe an investment case with a much longer horizon due to dvergent motives. F.e. they just want to destroy competition because the competitors cheated them couple of times or equivalent. These investors then are maybe ready to invest much more money than a financial investor would pay for the same target. There are huge differences between financial and strategic investors. Big topic is the emotionality from strategic investors. When they take part in a bidding process with finance investors, generally the financial investor lose out often then because they have much shorter success horizons. They need to generate value way earlier than maybe strategical investors do.

Q12: (Opinion based: Interrelations)

- Do you think that single stages within the pre- and post-merger phase influence each other? If so please specify.

A (interrelations): There is some sense to include post-merger issues during the acquisition process already, f.e. executive persons who should lead the company afterwards should be included already or at least to have the new team on board at this stage in the acquisition process. If you want to trust in the old management than you have them on board as well, on the other side if you do not want them managing the company you need adequate offers for negotiations. You also should have people on your side who can do the job and who are ready to overtake. To have the ownership structure settled is important. From my experience the first 3 months after the closing are the relevant time window in which you have to reorganize the company.

10.4.9 Notes Interview H-I

H) Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)

A (experience):

- I have a lot experience in this sector, today I am working in this environment since many years;
- The apprenticeship was within another sector

Q2: (Consultant approach)

- At which stage in the process is your consultancy generally approached?

A (approach):

- Early in the process, from the beginning
- Much work is related to the actual strategy planning which is often not sufficiently done within the company

A (service):

- The external view and relevant process knowledge are the major values, the consultancy can contribute to the M&A process
- Experienced people, high competence, market industry knowledge
- A professional approach towards this process
- The support for the strategy development is quite important for companies

Q4: (Opinion based: Perceptions)

- Does the client companies have very specific perceptions about:
    - The integration of an M&A strategy within the overall company's strategy
    - How to approach the overall M&A process and its single stages?

A (strategy integration):

- In mid-sized companies, different dynamic compared to bigger companies
- Companies often stumble into the process opportunistically without real strategy considerations beforehand, they are often contacted by seller companies and then react
- A professional approach is the exception
- Strategy set up often sparsely pronounced therefore a good communication with the executives and their imaginations is very important

A (process approach):

- First classic question where are we and where do we want to be in x years
- What are the company's core competencies, value drivers and success drivers
- Set up of a standardized target search process including criteria of relevance
- Smooth cooperation with the company in order to coordinate search process
- Learning is important mostly for the company, process learning, building of an internal knowledge base during the process etc.
- Evaluation of potential targets, questions included: Do they fit? Are there any potential targets available in the market?
- Permanent tracking and strict stop- and go-decisions
- Funneling management, long list building, short list building
- First contact and non-binding management meetings
- Important to clarify corner key issues as early as possible in the process
- Possible agreements
- Due Diligence

Q5: (Opinion based: Motives)

- Which are the major motives for M&A

A (motives):

- Market growth, partly synergies, company size, profit,
- Emotional as well as rational factors play a role
- Capacity reasons, market entry (very important) & new technologies
- In younger generations of leaders: exploiting the value chain develop new business models and establish them as complements to the own business model

Q6: (Opinion based: Performance):

- What are critical success factors during the pre-merger process and what are your the measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?
- Do you think soft factors are crucial point of success? (e.g. human factors, communication, organizational culture, business environment etc.)

A (success factors):

- Requirement for succcess is, a well-defined process beforehand
- Active approach towards the target search instead of opportunistic approach
- Well-founded considerations on strategies, imaginations and defined objectives, portfolio gaps which are to close, market trends etc.,
- Search purposefully for targets in the industry

A (risks):

- The M&A machinery today, is under pressure due to the fast changes and rapid innovations in markets

- Being able to stop the process when becoming more and more involved emotionally
- Remain objective
- The further the process went, the less possible is it for executives to step back

A (soft factors):

- Utmost important but limited today
- Low level of considerations regarding to soft factors

Q8: (Performance)

- What other sources of information do you leverage during target search (analysts, web research, investment banks)?

A (sources):

- Databases, internet, internal research, communication with experts consultancies

Q9: (Opinion based: Performance)

- At which stages of the process do you see potential for optimization?

A (optimization):

- Optimization potential starts with the question to which degree do I take this process seriously
- Creating an M&A team, having responsibilities already before the start defined
- Internal asset relocation
- Today there is definitely only a limited integration of soft factors such as: How is the company working? How does it fit to us? Am I ready to change? Cultural factors etc.
- Integration topics are considered too late in the process, the need of organizational consultant is mentioned, question is: How can I integrate such topics in an efficient way?

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/ organizational form/ industry/ strategic fit

A (attributes):

- With every transaction, this is very individual and hardly to standardize
- Criteria are examined through communication with the company

Q11: (Process)

- Do your clients consider integration issues and risks already in the pre-merger phase?

A (integration):

- Integration topics are considered too late

- Often set up of processes after closing
- No criteria at all for the target search today

Q12: (Opinion based: Interrelations)

- Do you think that single stages within the pre- and post-merger phase influence each other? If so please specify.

- It definitely is but today there is almost no research about this
- Low level of research also for pre-merger phase
- Further research is necessary in order to fully understand the influencing factors and how we could integrate them in our process

I)

Q1: (Experience)

- What is your level of experience with M&A processes, respectively with the pre-merger stages? (number of acquisitions, number of acquisition evaluations in company history)

A (experience):

- Buyer/seller requests, due diligence, financial audit, within a big consultancy mostly smaller deals

Q2: (Consultant approach)

- At which stage in the process is your consultancy generally approached?

A (approached): SELL side

- Seller is looking for an investment bank in order to sell the company
- A so called go to market strategy→ including a consultancy is relatively seldom
- Then the search for potential buyers starts. Includes a horizontal, vertical approach mostly with mid-sized companies approached
- The next step is a NDA → internal, letter of intent and following the offer of an indicative price, afterwards the data is reviewed in a so called data room for at least some weeks
- Next step is the final offer for the provided target

A (approached): BUY side

- Buy side
- Generally involvement from the first step, including developing the strategy, market analysis, competitors, other players, areas of certain interest, and the target search framework

Q3: (Consultant approach)

- Until which stage is your company mostly integrated into the process and are there differences observable regarding different kinds of companies/ transactions?

A (consultant approach):

- Failure Rate higher with bigger deals, smaller deals are often more successful
- But smaller companies have the lack of reliable data and financial key figures

A (consultant service):

- MNEs have their own departments and permanent screening of the market
- Market analysis and consultancies attendance from the strategy development on are most important companies
- Consideration of strategy development, communication concept, developing process steps in coordination with the company
- Most important the certain M&A experience and strategy building especially for smaller companies which do not have the knowledge internal and often struggle with the strategy

Q5: (Opinion based: Motives)

- Which are the major motives for M&A

A (motives):

- Growth, realization of synergies, new products
- Generally, personal interests are not that important with smaller deals but with big deals

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are your the measurements to ensure an adequate consideration of these?
- What are typical risks during the pre-merger process and how do you address these?

A (success factors):

- Target identification and in-depth understanding of the targets business model as well as the own companies business model
- Adequate planning and a clear definition of the overall strategy
- Fast responses on market changes
- Soft factors! The comprehensive spectrum of soft factors are utmost important, f.e. people's commitment, communication, cultural and governance issues
- Integration factors
- Tracking of synergies realized and the right synergy evaluation before the merger
- System integration

A (risks):

- Ownership risks are very important
- Breaker: hidden issues in the balance sheets and legal disputes
- Data provision, and reliability of data provided is of varying quality dependent on industry, size etc.
- On buy side generally the information flow is worse than from seller side

- Quality of data better within big companies

Q10: (Process)

- Which attributes of the targets do you consider when screening the markets for adequate targets? E.g. size/ organizational form/ industry/ strategic fit

A (attributes):

- Every target is individual and therefore criteria are as well
- The industry in which it is operating implies different attributes to be considered or at least different manifestation considerations in the key figures
- Differences in financial structure
- Size and industry specific attributes e.g. mechanical engineering = specific tangible assets, knowledge cash flow etc. or for IT companies: intangibles, software systems integration, platforms, user, network etc.

J, additional information)

Q4: (Opinion based: Perceptions)

- Does the client companies have very specific perceptions about:
  - The integration of an M&A strategy within the overall company's strategy
  - How to approach the overall M&A process and its single stages?

A (perceptions):

- Buyer Companies, that is corporate buyers, usually have their own profile of the kind of business they want to buy that includes Location, sectors, size etc. They may also want an outright purchase, a part purchase or a phased purchase over a few years. They may also want a strong management team and a good customer base. It's important to have a corporate finance team in place and good lawyers to advise them.

Q6: (Opinion based: Performance)

- What are critical success factors during the pre-merger process and what are the measurements to ensure an adequate consideration of these?

A (success factors):

- Obviously Due Diligence is essential and there is a long list of important factors like making sure the company selling has all their legal contracts in place and in particular IP, Intellectual property."

10.5 Interview request

Università
Ca' Foscari
Venezia

M&A Target Search Optimization

Expert Interview Request

Prof. Zirpoli, representative of the University Ca' Foscari and part of the Dipartimento di Management, in the role of my master thesis supervisor, and I undertake research regarding the potential optimization strategies for target search processes.

The objective is to identify success drivers of value creation within comprehensive M&A processes and integrate them into the pre- merger procedure to create a model which provides guidance for businesses with an intention for acquisition and disclose potentials to optimize the target search. This argument follows the opinion that the success of a merger strategy is significantly improved by a multi-disciplinary approach based on interrelations between pre- and post- merger stages.

To build a comprehensive overview of practical activities carried out by acquiring companies, examine critical success factors during the pre-merger process and define criteria on which potential targets are evaluated qualitative data collection method through interviews was chosen.

You were identified as an expert in this area of research due to your far- reaching experience regarding this research question. Interviewed experts are either from companies, which were part of an M&A transaction from the buyer side, or from consultancies with advisory mandates in M&A transactions.

Of course you will receive insights into the final thesis and its results. This results will support an adequate target search from the early stage in the M&A process. The thesis indicates particular steps to undertake in order to ensure an acquisition of the best fitting strategic partner for the buyer company. This provides you and your M&A department with valuable insights and measurements, which can improve the overall probability of success results out of M&A transactions.

I would be very pleased if you decided take part in this project and looking forward to receive your answers and concrete opinions to this topic.

Kind regards,

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