Helsinki University of Technology
Department of Industrial Engineering and Management
Institute of Strategy

Aino Maaria Mäkisalo

Developing Acquisition Program Capabilities

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HELSINKI UNIVERSITY OF TECHNOLOGY   ABSTRACT OF THE MASTER´S THESIS

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This thesis examines the key capabilities for carrying out acquisition programs. The objective of the study is first to determine, which are the key capabilities for effectively managing acquisition programs and secondly, to determine how the program-level capabilities can be developed further in the Case Company. In the study, acquisition programs are characterized by multiple acquisitions carried out in a certain business and under a limited timeframe.

Acquisition capabilities have so far been studied mainly from the perspective of individual acquisitions. However, this study shifts the focus onto acquisition program-level capabilities and the continuous development of M&A capabilities in order to manage a broader stream of acquisitions. This study addresses the question of how to develop the acquisition capabilities to a level that enables effective execution of the acquisition programs. The study first focuses on determining the key capabilities for the effective execution of an acquisition program, and then on how to develop these capabilities in order to manage acquisition programs in a more effective manner in the long-run. As a starting point for the study, M&A capabilities were first divided into four levels: (1) capabilities to manage individual acquisitions, (2) capabilities to develop the capabilities of managing individual acquisitions, (3) capabilities to manage acquisition programs and (4) capabilities to develop the potential of managing acquisition programs. The study focuses on the program-level capabilities (levels 3 and 4). The third capability level was examined by evaluating whether it is in general possible to define key capabilities for managing acquisition programs, what these key capabilities could be and whether there are common characteristics for successful serial acquirers. The fourth capability level was explored through learning-related questions such as how a successful acquirer could learn from its own activities and what kind of mechanisms it should establish in order to develop its M&A capabilities.

The Case Company, which had traditionally pursued an acquisition-supported growth strategy, was seeking to shift its focus from individual acquisitions more onto acquisition programs by deepening its understanding on the key capabilities required to carry out acquisition programs in a successful manner. The study began with a broad literature review, upon which an acquisition program capability template was created. This literature-based capability template provided a starting point for the case study, which formed the empirical part of the study. The case study was conducted by examining two acquisition programs that the Case Company had carried out. The first acquisition program included four acquisitions that had been previously carried out over a three-year period from 2001 to 2003. The second acquisition program, which was started in 2004 and will most likely be continued in the future, has so far included five acquisitions.

A process description was developed and applied to managing acquisition programs in order to determine at which point each capability played a central role: the acquisition program preparation phase, acquisition program execution phase and post acquisition program phase. The case study provided further insights into the essential acquisition program capabilities and the final acquisition program capabilities template. The final template was developed as a result of the literature review, empirical findings from the case study and several in-depth discussions with the Case Company's M&A team. The final template and the recommendations for the Case Company are presented as an acquisition program process description where the key acquisition program capabilities are linked to the corresponding process step. This template is to be applied to a new business to which the Case Company was seeking to expand while this thesis was in progress.

Keywords: Acquisition Programs, Acquisition Program Capabilities, Acquisition Program Capability Development, Dynamic Capabilities	Publishing language: English

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Informaatio- ja luonnontieteiden tiedekunta

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Tämä diplomityö tutkii sitä, mitkä ovat yritysosto-ohjelmien toteuttamisessa vaadittavat avainkyvykkyydet. Työn tavoitteena on ensin määrittää yritysosto-ohjelmatason avainkyvykkyydet ja antaa sen pohjalta suosituksia tutkittavalle kohdeyritykselle siitä, miten sen tulisi niitä kehittää omalta osaltaan. Yritysosto-ohjelmat määriteltiin tutkimusta varten yhdellä liiketoiminta-alueella tietyn aikarajan puitteissa suoritettavien yritysostojen avulla.

Yritysostokyvykkyyksiä on toistaiseksi tutkittu lähinnä yksittäisten yritysostojen näkökulmasta. Tämä tutkimus kuitenkin pyrkii siirtämään painopistettä yritysosto-ohjelmatasolle ja yritysosto-ohjelmakyvykkyyksien jatkuvaan kehittämiseen. Tutkimuksen pääasiallinen tutkimuskysymys on "Miten kehittää yritysostokyvykkyyksiä tasolle, joka mahdollistaa yritysosto-ohjelmien tehokkaan toteuttamisen?”. Tutkimuksen lähtökohdaksi yritysostokyvykkyydet jaoteltiin neljälle eri tasolle: kyvykkyys (1) toteuttaa yksittäisiä ostoja, (2) kehittää yksittäisten ostojen toteutuskykyä, (3) toteuttaa yritysosto-ohjelmia ja (4) kehittää yritysosto-ohjelmien toteutuskykyä. Tutkimus keskittyy tasoille 3 ja 4. Kolmatta kyvykkyystasoa tutkittiin selvittämällä, onko ylipäänsä mahdollista määrittää avainkyvykkyyksiä ohjelmien hallintaan, mitkä nämä olisivat ja onko taitavista sarjaostajista löydettävissä yhteisiä piirteitä. Neljättä kyvykkyystasoa tutkittiin analysoimalla jatkuvaan oppimiseen ja kehittämiseen liittyviä kysymyksiä kuten miten sarjaostaja oppii parhaiten omista kokemuksistaan ja minkälaiset mekanismit sopisivat yritysostokyvykkyyksien jatkuvaan kehittämiseen.

Tutkittava kohdeyritys, joka on perinteisesti kasvanut sekä orgaanisesti että aktiivisten yritysostojen kautta, halusi siirtää painopistettä yksittäisistä ostoista yritysosto-ohjelmatasolle pyrkimällä syventämään omaa ymmärrystään olennaisista avainkyvykkyyksistä ohjelmien tehokkaaksi toteuttamiseksi. Tutkimus alkoi laajalla kirjallisuuskatsauksella, jonka perusteella laadittiin ensimmäinen, tutkimuksen empiirisen osan pohjana toiminut yritysosto-ohjelmamalli. Tapaustutkimus toteutettiin tutkimalla kahta kohdeyrityksen toteuttamaa yritysosto-ohjelmaa. Ensimmäinen ohjelma koostui neljästä yritysostosta ja oli toteutettu kolmen vuoden aikajaksolla vuosina 2001 - 2003. Toinen ohjelma, joka aloitettiin vuonna 2004 ja jota mitä todennäköisimmin jatketaan vielä tulevaisuudessa, koostuu toistaiseksi viidestä yritysostosta.

Yksittäisten yritysostojen kanssa analogista prosessikuvausta sovellettiin myös yritysosto-ohjelmien hallintaan, jotta oli mahdollista analysoida, missä vaiheessa prosessia eri yritysosto-ohjelmakyvykkyyksiä on tärkeää hallita: yritysosto-ohjelman suunnitteluvaiheessa, ohjelman toteutusvaiheessa vai ohjelman toteutuksen päättymisvaiheessa. Tapaustutkimus mahdollisti yritysosto-ohjelmien avainkyvykkyyksiä ja lopullista kyvykkyysmallia koskevan näkökulman syventämisen. Lopullinen malli kehitettiin kirjallisuuskatsauksen, empiiristen löydösten sekä useiden kohdeyrityksen M&A ryhmän kanssa käytyjen keskustelujen pohjalta. Lopullisessa kyvykkyysmallissa ja suosituksissa ohjelmatason avainkyvykkyydet sijoitetaan käytännön sovelluksen perusteella muokattuun prosessikuvaukseen yritysosto-ohjelmien toteuttamisesta. Kohdeyritys soveltaa lopullista mallia uuden kiinnostavan liiketoiminta-alueen tutkimisessa.

Asiasanat: Yritysosto-ohjelmat, yritysosto-ohjelmakyvykkyydet, yritysosto-ohjelmakyvykkyyksien kehittäminen, dynaamiset kyvykkyydet	Julkaisukieli: Englanti

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1 Introduction

1.1 Background

Performing mergers and acquisitions (M&A) has been studied extensively from many perspectives. Some studies have focused on acquisition processes, some have compared the process view with the traditional view and some have focused on acquisition capabilities. The challenges in acquiring have motivated researchers to study all the interdependent sub-activities of acquisition process. The traditionally accepted consensus has been that instead of increasing an acquirer's value and improving performance, mergers and acquisitions tend to destroy value (e.g. Porter, 1980). However, this view has been challenged by the recent research (e.g. Bruner, 2001) and studies performed by consulting companies such as The Boston Consulting Group (BCG) and McKinsey et co. (2006 – 2008).

Rather little attention has been paid to acquisition strategies and acquisition histories. Schipper and Thompson (1983) found that a significant percentage of the single transactions analyzed in M&A research occurred within acquisition programs implemented by individual companies. A recent study even implies that the majority of acquisitions are a part of an acquisition stream run by individual companies (Rosen, 2005). Thus, the view that individual acquisitions are often a part of a company's broader sequence of acquisitions has gradually started to shift the perspective from a close-up on one transaction to the implementation of an entire acquisition strategy consisting of multiple transactions.

Existing research suggests that mergers and acquisitions should primarily be seen as a tool among other potential investment modes instead of a strategy to grow as such. Allocating too much managerial resources on acquisition processes diverts attention from the core business and may even decrease performance in the long-run. These studies reckon that markets are more likely to reward companies focusing on their strategic goals and selecting acquisitions that complement their distinctive capabilities (Palter and Srinivasan, 2006; Cools et al., 2007) than companies whose primary reason for acquiring is to expand their business. On the other hand, there are recent studies that find acquisition-driven growth strategies creating superior shareholder returns (Cools et al., 2004). Successful serial acquirers represent a lucrative research field and are drawing increased attention from distinguished researchers. So far, serial acquisitions have been mainly addressed as a stream of individual acquisitions. One of the main foci in this field has been on measuring how prior acquisition experience affects the serial acquirer's performance (e.g. Lubatkin, 1983; Kusewitt 1985; Haleblian and Finkelstein, 1999; Zollo and Singh, 2000; Albizzatti and Sias, 2004). Later on, focus has been drawn on the utilization of this acquisition experience and more specifically, learning from prior acquisitions (e.g. Hayward, 2002).

1.2 Research Problem

The main research problem of the thesis is:

"How to develop acquisition capabilities to a level which enables effective execution of acquisition programs?"

The main research question first focuses on determining the key capabilities for the execution of an acquisition program and, secondly on how to develop these capabilities in order to manage acquisition programs in a more effective manner in the long-run.

The main research problem is further divided into the following sub-questions:

- What are the key capabilities for managing acquisition programs? Are there common characteristics for successful serial acquirers - and what are these common characteristics?

- What is the optimal process description for managing acquisition programs? Which acquisition program capabilities are needed and at which stage of the process? What is the optimal manner for an organization to allocate the capabilities and responsibilities in acquisitions?

- What drives the M&A capability development for a successful serial acquirer? How can a serial acquirer learn from its own experiences? How can a serial acquirer benchmark other successful serial acquirers?

1.3 Objectives

There are three primary objectives in the study as presented in Figure 1. The first objective is to determine the key acquisition program capabilities for successfully planning and executing an acquisition program as well as the key capabilities needed to integrate an acquired business into the acquirer's existing organization. The second objective of the study is to come up with concrete guidelines for planning and executing an acquisition program and linking the key M&A capabilities to the corresponding stages of the process. The third objective is to establish methods through which an acquirer can develop its M&A capabilities and become more successful in the long-run. The study aims to discover whether and how a company can benefit from intentional and continuous learning when performing acquisitions as a part of an acquisition program and whether the Case Company currently utilizes its existing knowledge and M&A experience. Moreover, the study examines what kinds of acquisition program-level resources should be appointed and at which stage.

The study aims to fill in the academic gap in the literature surrounding the higher levels of acquisition capabilities and to deepen the understanding of dynamic capabilities by analyzing literature on the micro-foundations of capability development (e.g. Laamanen and Wallin, 2009). The practical relevance of the study is in examining a certain company's (referred to as the Case Company) on-going acquisition programs and to define a standardized acquisition program capability template the company can use in planning and implementing its upcoming acquisition programs. The template is to serve as a basis for further developing the Case Company's acquisition capabilities.

Research Problem:
How to develop acquisition capabilities to a level which enables effective execution of acquisition programs?

Research Question 1:
What are the key capabilities for managing acquisition programs? Are there common characteristics for successful serial acquirers – and what are these common characteristics?

Objective 1:
to determine the key acquisition program capabilities that a serial acquirer needs in order to successfully plan, execute and integrate acquisition programs

Research Question 2:
What is the optimal process description for managing acquisition programs? Which acquisition program capabilities are needed at which stage of the process? What is the optimal manner for an organization to allocate the capabilities and responsibilities in acquisitions?

Objective 2:
to come up with concrete guidelines for planning, executing and integrating an acquisition program and linking the key program capabilities to the corresponding stages of the process

Research Question 3:
What drives the M&A capability development for a successful serial acquirer? How can it learn to benchmark other successful serial acquirers?

Objective 3:
to establish methods through which acquirers can develop their M&A capabilities in the long-run and become more successful in carrying out acquisitions

Figure 1: Objectives of the study

1.4 Scope of the Study

The focus of the study is on serial acquirers and acquisition programs. Individual acquisitions are examined only briefly and serve as a reference for examining the research question. In further detail, the study explores the M&A capabilities with the special focus on analyzing the key capabilities of implementing acquisition programs. A four-level framework for acquisition capabilities is presented as a basic template for structuring the analysis. This framework is presented and further discussed in the literature review. The study focuses on analyzing the third and the fourth level of the capability framework: the capabilities to manage acquisition programs and the capabilities to develop these aforementioned capabilities. In order to study the fourth, yet rather unexplored level of acquisition capabilities, the third level first needs to be analyzed. The study approaches the fourth capability level by examining the cognitive micro-foundations of dynamic capabilities.

1.5 Methodology

The methodology of the study consists of a theoretical and empirical part. The theoretical part is composed of the literature review, which covers two broad topics as presented earlier: the capability to manage acquisition programs and the capability to develop the capabilities of managing acquisition programs. The cognitive micro-foundations of dynamic capabilities will also be examined in the latter part of the literature review. The second part of the literature review builds up on the first part.

The empirical part of the study consists of a cognitive, action analytic approach: the approach is diagnostic and mainly based on the theory-building case study (Eisenhardt, 1989). Existing data and analyses on the company's individual acquisitions are examined partly simultaneously while conducting the literature review. Moreover, the interviews and in-depth discussions are carried out in part concurrently to analyzing the empirical findings.

1.6 Definitions

Acquisition Capabilities. Acquisition capabilities are a set of specific and identifiable processes, tools and resources that can be reflected in the knowledge, skills, systems and structures of an acquirer. Acquisition capabilities can refer to the capability of performing individual acquisitions or the capability of performing a series of acquisitions. Traditional research has focused more on individual acquisitions but this study aims to zero in on the acquisition program level. Acquisition capabilities are examined from the perspective of dynamic capabilities.

Acquisition Capability Framework. The Acquisition Capability Framework used in this study consist of four hierarchical levels: the capability (1) to manage individual acquisitions, (2) to develop the capability of managing individual acquisitions, (3) to manage acquisition programs and (4) to develop the capability of managing acquisition programs. This framework will be presented in the literature review and then elaborated further in the theoretical framework of the study.

Acquisition Programs. In the study, acquisition programs are characterized by multiple acquisitions carried out within a certain business or industry sector and under a limited timeframe. Acquisition programs can be very complex and company-specific by nature. Yet, some generalizations can be made in order to address the basic definitions. Acquisition programs are usually entities consisting of a stream of individual acquisitions, which are managed in a coherent and consistent manner. In this case study, there are two main determinants for an acquisition program: the targets operate mostly in the same business and the acquisitions are carried out within a specific time period.

Dynamic Capabilities. There are several somewhat differing definitions of dynamic capabilities. Teece and Pisano (1997) defined them as unique and idiosyncratic processes emerging from path-dependent histories and requiring in-depth learning mechanisms. Zollo and Winter (2002) define dynamic capabilities as a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness. Teece (2007) separates dynamic capabilities from the so called zero-level capabilities in how they relate to change: whereas ordinary capabilities enable a company to run its normal business operations, dynamic capabilities extend, modify or create ordinary capabilities. Dynamic capabilities are a prerequisite for rapidly adapting to a changing customer base and new technological opportunities. Eisenhardt and Martin (2000) define dynamic capabilities as specific processes that vary with the underlying market dynamics but have significant commonalities across firms. Laamanen and Wallin (2009) state that dynamic capabilities reflect the organization's ability to reach new and innovative forms of competitive advantage.

1.7 Structure of the Study

The structure of the study is presented in Figure 2. As a theory-building research, the aim is to sharpen the constructs as the research project continues further and finally, to iterate towards a theory that closely fits with the data. This includes refining the definition of the construct and building evidence, which measures the construct in each of the cases (Eisenhardt, 1989). The literature review consists of two broader parts, both related to acquisition capabilities: the capabilities to manage acquisition programs and the capabilities to develop the capabilities of managing acquisition programs. The main contributors for the first part of the literature review are Kusewitt (1985), Hayward (2002), Fowler and Schmidt (1989), Fuller et al. (2002), Rovit and Lemire (2003), Voss (2007), and Laamanen and Keil (2008). The second broad part of the literature review discusses the capability to develop the capabilities of managing acquisition programs and explores the cognitive micro-foundations of capability development. The main sources for this part are the working papers and studies by Gavetti et al. (2005, 2007), Laamanen and Wallin (2009) and Bingham (2008).

Two different templates were developed as a result of the study. The first template, Acquisition Program Capabilities Template 1, was merely based on the synthesis of the literature review and it was reflected on while examining the two acquisition program cases, Program 1 and Program 2. After analyzing the Program cases and having had several in-depth discussions with the Case Company's M&A team, a process description for managing acquisition programs and a final capabilities template, the Acquisition Program Capabilities Template 2 was developed and applied to a new business the Case Company was seeking to expand to. This template was presented as final recommendations for the Case Company and it will also be applied to planning, executing and integrating acquisition programs that emerge in the future.

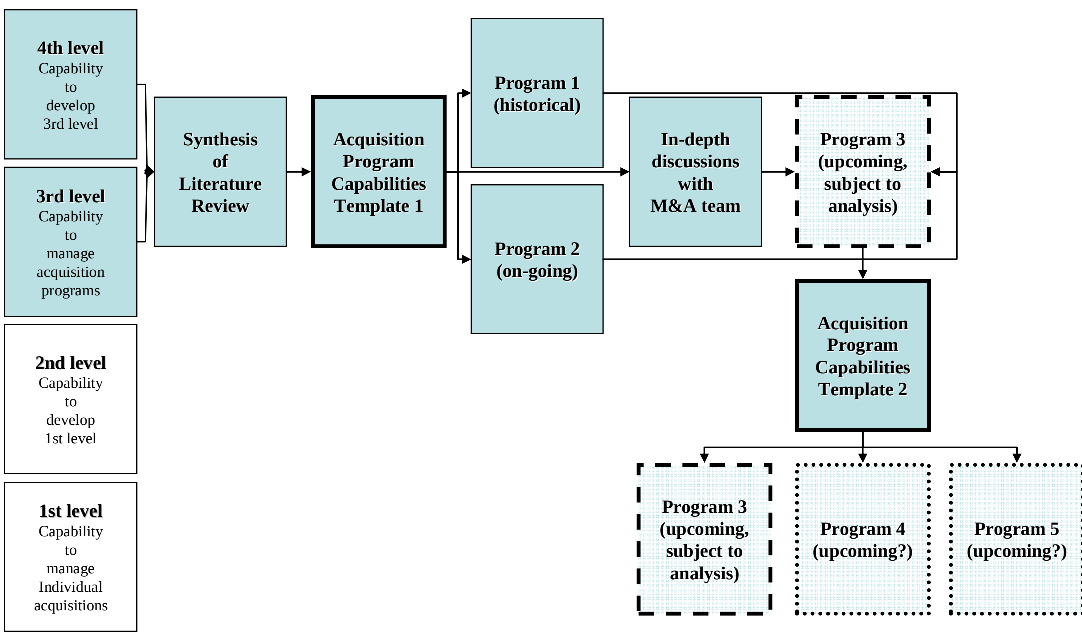

Figure 2: Structure of the study

2 Literature Review

2.1 Mergers and Acquisitions from a General Point of View

Companies are expanding through mergers and acquisitions to such an extent that the combined deal value in 2006 was almost 3.8 trillion dollars (Thomson Financial, 2007).

During the period of January 1980 to January 2000 there were over 400 000 completed mergers or acquisitions worldwide with a total value of 9 trillion dollars (SDC, 2000). Yet there has been a somewhat general understanding that individual acquisitions more likely decrease than increase the acquirer's performance. In the merger mania of the 1980's as much as almost one third of all mergers and acquisitions ended up in divestiture and fifty percent proved to be generally unsuccessful when measured in financial terms (Napier, 1989; Bradley and Sundaram, 2005). In a review of all industries, the indication was that even up to seventy percent of all acquisitions fail to meet the forecasted expectations and never live up to the pre-merger performance levels (Rodgers, 1988). On average the shareholders of the acquiring firms earn at maximum zero abnormal returns at the time of the acquisition's announcement, although there is a high variance in the returns (Fuller et al., 2002; Moeller et al., 2004). Several studies have also shown that acquisitions that are large in relative terms tend to yield inadequate returns for the acquirers (Porter, 1987; Agrawal, Jaffe and Mandelkar 1992; Loughran and Vijh, 1997) and that in general, smaller acquirers outperform their larger counterparts.

Not all studies have indicated a negative post-acquisition outcome: Bruner (2001) states that from sixty to seventy percent of all acquisitions result in a performance that actually does compensate investors for their opportunity costs. He argues that most of the studies implicating a negative post-acquisition performance do not take these opportunity costs sufficiently into account. The value destruction argument is based on the impact the deals have on the value of the acquirer's shares – it does not measure the effect on the target's investors. Cools et al. (2007) state that if the effects of the acquisition on the target's investors are measured and combined with the acquirer's post-acquisition performance, the total outcome of mergers and acquisitions turns out to be positive. Different methods of measuring post-acquisition performance may lead to different outcomes. Moreover, the acquirer's performance usually differs in the short-run versus when examined in the long-run. Zollo and Meier (2008) made a comprehensive comparison of different M&A performance measures and found no significant connection between the short-term measures such as the most commonly used Cumulative Abnormal Returns (CAR) and any other metrics. Their findings indicate that short-term window event studies do not actually gauge acquisition performance but they rather depict the overall market sentiment of how certain types of acquisitions should perform. They state that the financial markets do not appear to have sufficient information to systematically predict the outcome of an acquisition based on the data available at the time of the acquisition announcement.

2.1.1 Reasons to Acquire

If acquisitions in general affect the acquirer's performance negatively then why do companies perform acquisitions? Several studies have focused on examining these main incentives and found somewhat contradictory results.

Many M&A practitioners and consulting firms believe that the relative size and acquisition frequency can affect the success or failure of an acquisition program. For example McKinsey & Co. (Frick and Torres, 2002) state in a recent study that although the average merger or acquisition destroys value for the acquirer, deals carried out by companies that undertake them often and in a strategic manner actually do create value. A study by the Boston Consulting Group (Cools et al., 2004) similarly concludes that highly acquisitive companies outperform those making only a few or no acquisitions at all. Bradley and Sundaram (2005) found that acquisitions are actually the result of good performance, not the cause. They also found there to be a difference in announcement effects of public and non-public targets especially when stock was used as the method of payment: public targets resulted more likely in negative announcement effects whereas the effect for non-public targets was significantly positive. Concluding, Bradley and Sundaram (2005) found significant positive market reactions to acquisitions involving cash and acquisitions of non-public targets, regardless of the medium of exchange.

Porter (1980) presented three prerequisites for performing acquisitions successfully: a low floor price in order to avoid overpayments that reduce the total profits generated by the acquisition, imperfect markets for generating new growth opportunities and a unique opportunity for the buyer to operate the acquired business. Hitt et al. (2003) found various reasons to motivate acquisitions: increasing market power, overcoming entry barriers, decreasing cost of new product development, increasing the speed to market, lowering the risk compared to developing new products, increasing diversification, avoiding excessive competition and learning and developing new capabilities. Further research has shown that some acquirers habitually and successfully acquire to gain market power (Barton and Sherman, 1984; Baker and Bresnehan, 1985; Anand and Singh, 1997), some to divest assets and re-deploy resources (Capron, 1999) and some to strengthen technical knowledge (Ahuja and Katila, 2001).

Albizzatti and Sias (2004) point out four major motivations for performing acquisitions: acquiring new skills or products, expanding geographically, consolidating a mature industry or transforming or creating an entirely new industry. Acquiring new skills or products is rational if the company is looking for a specific competency or skill or if the company wishes to deepen its R&D capabilities or take up a product that would fill a gap in its own product portfolio. Geographical expansion motivates acquisitions if the company aims to extend its business model into new regions in order to increase market share. If the company wishes to consolidate a mature industry, the best strategy would be to merge with another company relatively similar in size and scope by integrating operations on a relative co-equal basis (Hitt et al., 2003). A company wishing to transform or create an entirely new industry is most likely to acquire a target from a different industry segment.

Chatterjee (1986) introduces a resource-based synergy approach where he identifies the resources as cost of capital-, cost of production- and price-related. The first category mentioned results in financial efficiencies, the second in operational benefits and price-related in collusive synergies. One of the findings of the study is that horizontal mergers result in the highest gains. However, in a later study, Chatterjee (2007) states that the unprecedented complexity of synergistic mergers and acquisitions, acquirers' overconfidence on its prior experience and a too opportunistic attitude often lead to overestimating achievable synergies. Yet synergy remains one of the most common justifications managers use when explaining the acquisition to shareholders.

Although synergistic mergers may create competitive advantage, they may also lead to integration problems. Chatterjee (2007) refers to several researches showing that the highest probability to succeed is for the acquiring firms to rely on a repeatable acquisition process. Occasional ad hoc -acquirers searching for synergy or a unique opportunity have to contend with all the impediments to acquisition success and are therefore less likely to succeed. Chatterjee (2007) finds cost synergies being easier to achieve than revenue synergies, which is often also stated by consultants and other practitioners. Even experienced acquirers should approach synergistic mergers carefully without relying too much on their prior success record.

2.1.2 Literature Findings on Acquisition Value

Acquisitions tend to decrease the acquirer's performance at least in the short run. A common reason for poor post-acquisition performance is the inadequate evaluation of potential targets. Without a professional due diligence process, there is a high risk of the acquirer overestimating the potential acquisition gains and underestimating the risks. Many acquisitions fail because the acquirer is not able to achieve the predicted synergies from the acquisition (Hitt et al., 2003). As one reason for acquisition failure, Hitt et al. (2003) mention managers being too focused on acquisitions. Due to the limitations on a company's management capacity (Penrose, 1959), a highly active acquirer inevitably diverts attention from the daily operations to acquiring. If all the valuable time is spent on searching for potential targets, on carrying out comprehensive due diligence processes or on preparing for the negotiation phase, very little time is left to concentrate on the core business. In this case, the opportunity costs may turn out higher than expected.

A main focus of M&A studies has traditionally been the strategic fit between the acquirer and the target. There are somewhat contradicting findings on whether a high acquirer-to-target relatedness produces better results than a lower relatedness does. Chatterjee (1986) states that horizontal mergers lead to collusive synergies and thereby create the highest value. Also other studies on serial acquisitions (e.g. Singh and Montgomery, 1987; Barkema and Nadolska, 2008) imply that a higher acquirer-to-target relatedness increases the probability of a successful post-acquisition performance. On the contrary, Seth (1990) found that related acquisitions do not appear to create more value than unrelated acquisitions. Instead, value is created by both unrelated and related acquisitions. Fowler and Schmidt (1989) extended the research field from the business relatedness to cover additional strategic acquisition factors such as organizational age, acquisition experience and the percentage of target's stock acquired. They found that on average the post-acquisition performance improved significantly if the organizations had previous M&A experience, if they acquired a high percentage of the target and if the acquirer was an older company. Engaging in a competitive bidding was seen to decrease acquirer's performance. Morck et al. (1990) found that three types of acquisitions have systematically negative announcement returns to bidding firms: acquisitions where the acquirer diversifies, acquisitions where the acquirer buys a rapidly growing target and acquisitions where the acquirer's managers have performed poorly before the acquisition.

2.1.3 Strategic Acquirers – A General Outline

Strategic acquirers can be defined as companies acquiring other firms as a part of their business strategy and companies that carry out acquisitions in order to accelerate growth in a certain business, market segment or strategically important location. The literature mentions Cisco Systems, GE Capital and Microsoft as examples of successful serial acquirers with clear and developed acquisition strategies. These strategic acquirers are in constant search for potential targets to fill gaps in their product and technology capabilities (Chatterjee and Bourgeois, 2002). Strategic acquirers can be further categorised into frequent and less frequent acquirers as well as into acquirers pursuing a steady acquisition rhythm and acquirers acquiring on a more of an ad hoc basis (measured e.g. as the adjusted standard deviation in the acquisition rate). On average, companies performing a high number of smaller acquisitions are able to take better advantage of learning-by-doing as opposed to companies engaging in only a few larger acquisitions. However, the emphasis of a particular acquisition strategy on performance is challenged by Bradley and Sundaram (2005) who found that in fact, post-acquisition performance does not follow particular acquisition strategies but is rather determined by the nature of the target and the medium of exchange: markets were found to react positively to cash-financed acquisitions of public targets and negatively to acquisitions of public targets that were financed with stock.

The acquisitions of strategic buyers have also been compared to those of private equity (PE) firms. The traditional assumption has been that the PE firms have conquered an increasingly large share of the M&A market merely by using their huge reserves of capital. However, fresh research proves otherwise: private equity firms manage to win deals against strategic acquirers by paying lower multiples and lower acquisition premiums than strategic buyers (Cools et al., 2007). Several explanations for this finding have been presented. First of all, PE firms tend not to bid for targets in strongly consolidated industries where high multiples are paid but instead rather concentrate on targets many strategic acquirer consider too small or unreachable due to legal regulation. Cools et al. (2007) further argue that targets usually prefer to be acquired by a PE firm to being acquired by a strategic acquirer, which lowers the price of the acquisition for a PE firm.

2.1.4 Acquisition Strategies: Frequency and Acquisition Type

Hopkins (1987b) has divided acquisition strategies into consistent and inconsistent ones. He further subdivided the consistent acquisition strategies into marketing and technology related and to the less focused strategies. Voss (2007) presents an acquisition strategy framework based on the two factors repeatedly stated to affect M&A capability evolution the most: acquisition frequency and acquisition type. Existing research has not been able to form a consensus on whether the relationship between acquisition frequency and M&A capability evolution is actually positive or negative. However, some conclusions can still be drawn.

Rovit et al. (2003, 2004) suggest that the best strategy is to perform acquisitions constantly throughout all economic cycles: companies most successful at creating long-term shareholder value are frequent and steady acquirers and are able to maintain a constant program of transactions throughout economic busts and boom times. These conclusions are supported by their findings in which the frequent acquirers outperformed all other companies and the shareholder value created was directly correlated with the number of acquisitions. They have distinguished five acquisition strategies based on acquisition frequency and target size, which are visualized in Figure 3:

- Mountain climbing stands for first acquiring small targets frequently and then moving on to larger ones
- Stringing pearls stands for acquiring small targets frequently
- Betting small stands for acquiring small targets at irregular intervals
- Rolling the dice stands for performing only a few acquisitions but acquiring only large targets
- Refraining means making no acquisitions at all

The companies enjoying the highest returns were the “mountain climbers” followed by the “pearl stringers”. In other words, the companies performing the highest number of acquisitions outperformed their less active counterparts. The most successful acquirers focused on small targets that were even less than fifteen percent of their own size. These mountain climbers and pearl stringers performed almost six times better than their peers that aimed for bigger targets at a lower frequency. Making only a few large acquisitions, "rolling the dice" proved to be the riskiest strategy.

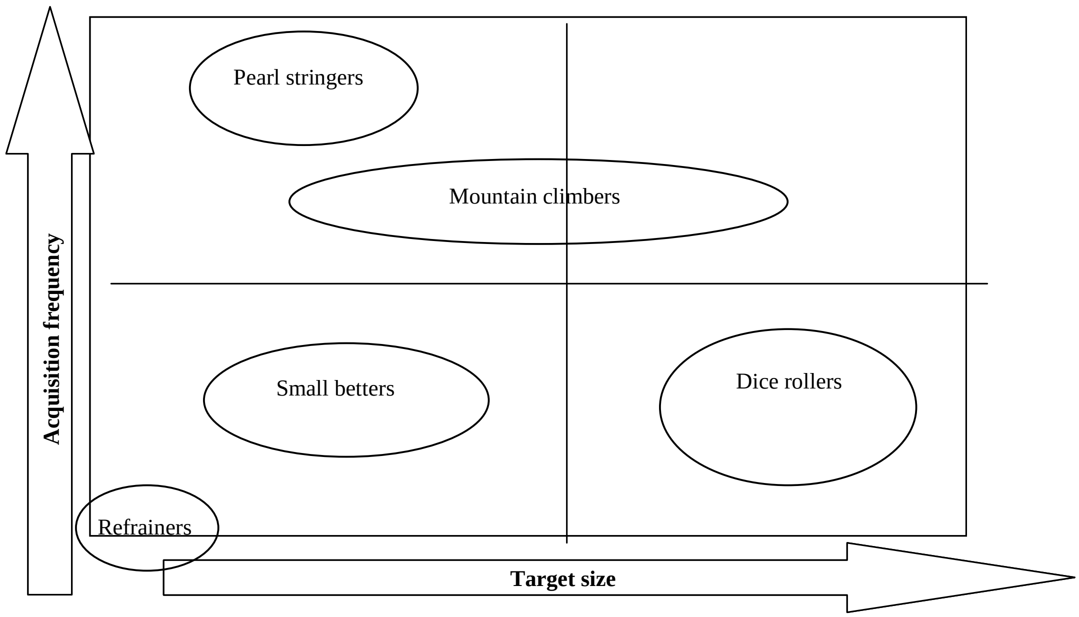

Figure 3: Acquisition strategies matrix (Rovit et al, 2004 ; Voss, 2007)

Voss (2007) presents acquisition type as the other dimension of acquisition strategies in addition to acquisition frequency. Acquisition type measures the number of different kind of acquisitions within an acquisition strategy. The business similarity of the targets and the congruency of their strategic objectives with the acquirer's objectives have an impact on M&A capability evolution. This business similarity can refer to the acquirer-to-target relatedness and to target-to-target relatedness.

2.2 From Individual to Serial Acquisitions

Multiple acquisitions have been studied to a lesser extent than individual acquisitions. Voss (2007) has divided the present literature on multiple acquisitions into four different theories: (1) the financial perspective theory, (2) the agency theory, (3) the strategic management research and (4) the organizational learning theory. A summary of these theories has been presented in Figure 4.

Studies focusing on the financial economic perspective of multiple acquisitions form one category. This perspective suggests that performance is controlled more by capital markets than by actual firm behaviour. The financial theory states that multiple acquisitions should be performed only when an unexploited value- or synergy-adding element can be realized. Studies focusing on the financial perspective have not been able to provide entirely coherent results on serial acquirers. They have found that in general, serial acquirers are slightly more successful than single acquirers and that acquisitions carried out earlier are more value adding than later ones.

Studies building on agency theory are fewer in numbers. Their core assumption is that imperfections in the market do exist. Moreover, the agency theory emphasizes the differing managerial motives and different interests of the management team compared to the company owners. Agents may act selfishly in a way that is not in the principal's best interests. In the case of serial acquisitions, this theory implies that serial acquisitions may be triggered by the agents' personal interests (e.g. Hopkins, 1987b) or by managerial hubris (Roll, 1986). Managerial hubris refers to managers over-generalizing prior acquisition success to new very different cases. Managers wish to grow their "empire" and improve their own status and position by expanding business through acquisitions. Their "grow or go" attitude means that acquisitions are considered to prevent the acquirer from becoming a takeover target itself. Additionally, acquirer's shareholders often consider acquisitions positively since acquisitions are viewed as a signal of the acquirer having ambitions about expanding its business and gaining more market power. The agency theory based studies have found, similarly to the financial studies that the earlier acquisitions outperform the latter ones and that in general, serial acquisitions rarely increase the acquirer's value.

The third category is the strategic management research, which examines the reasoning behind successful acquisition strategies. This category acknowledges market and company imperfections correspondingly with the agency theory. Strategic management research presents the concept of bounded rationality according to which managers pursue satisfactory firm performance in spite of not always making the right decisions. This category finds related acquisitions more successful than unrelated ones (e.g. Kusewitt, 1985; Chatterjee, 1986; Singh and Montgomery, 1987; Barney, 1988). The strategic management research has not yet reached a consensus on how acquisition strategies in general should be implemented and it is safe to say that this category covers perhaps the widest range of results on multiple acquirers.

The fourth category stems from the organizational learning theory, which assumes acquisition experience to enhance performance (Lubatkin, 1983). The results of how prior experience affects acquisition performance have in general been contradicting. Yet, most of the researchers agree on prior experience as such not automatically having a positive impact on acquirer performance. The outcomes have to be thoroughly analyzed in order to make good use of these experiences in the forthcoming acquisitions.

	Financial economics	**Agency theory**	**Strategic management research**	**Organizational learning theory**
Process perspective	None	None	To some extent	To some extent
Acquisition strategy characteristics	No importance	No importance	Acquirer-target relatedness, acquisition rate, target size, strategic rationale	Acquirer-target relatedness, acquisition rate, target size, acquisition experience
Performance measures	Measures based on capital-markets and accounting	Measures based on capital-markets	Measures based on capital markets, accounting, marketing and events; subjective ratings	Measures based on capital markets, accounting, marketing and events; subjective ratings

Figure 4: Comparing multiple acquisition research streams. Voss (2007)

The capabilities to perform multiple acquisitions and acquisition programs have been studied to a much lesser degree. Schipper and Thompson (1983) pointed out the difficulties in identifying market perception of an individual acquisition when the acquisition is carried out as part of an announced acquisition program. Kusewitt (1985) studied the effects of different factors on long-term performance measured by accounting return on assets and market return and focused on serial acquirers. More specifically, he studied the effect of the following factors on post-transaction performance by examining almost 140 active acquirers that had accomplished approximately 3500 acquisitions during the period from 1967 to 1976. The first factor in the parentheses stands for the nature of the impact and the second factor reveals whether the factor proved to be statistically significant.

- relative size of target to acquirer was measured as the percentage ratio of the target's assets divided by the acquirer's assets at the end of the year prior to the acquisition (-, statistically significant)

- acquisition rate was measured in two ways: as the average number of acquisitions per year and as the average number of acquisitions per year divided by the acquirer's assets in the final year of the study period (-, statistically significant)
- industry commonality was measured as the percentage of target's assets common to the acquirer's existing assets (+, statistically significant)
- acquisition timing relative to market cycle was measured based on the Standard and Poor 500 trend line which was regressed from monthly averages of the index during the study period (-, statistically significant)
- type of consideration offered was measured as the percentage of assets acquired for cash (-, statistically significant)
- target profitability prior to acquisition was measured by dividing the target's after-tax net income by its total assets in the year prior to the acquisition (+, statistically significant)
- price paid was measured by dividing the target's after-tax net income in the year prior to the acquisition by the price paid for the target (statistically not significant)

Kusewitt (1985) came up with the following guidelines for achieving success through an acquisition program based on his findings:

1) The acquisition rate should be sufficiently high to develop and maintain expertise but not that high it would detract attention from a proper assimilation and integration of the acquisition. Kusewitt suggests a preferred rate at maximum one per year and at minimum one per four to five years. Larger acquirers can acquire at a higher speed than smaller companies.
2) Acquisitions should be performed when the market cycle is low
3) Stock should be preferred as the method of payment compared to cash as the analysis indicates a significant and negative relationship between the percentages of acquisitions accomplished by cash. Cash acquisitions are believed to be associated with poorer performance owing to the risk to liquidity and a balanced capital structure. Additionally, different tax treatments of acquisitions financed by stock and cash may have affected the findings.

4) The targets should have a higher profitability and growth potential than companies on average have. Unfriendly takeovers should also be avoided, since they often lead to management attrition. In order to promote early and effective integration between the companies, compatibility of the management styles should be ensured.
5) In order to achieve synergies, acquisitions should preferably be performed in related businesses.
6) Acquisitions that are remarkably large or excessively small in relative terms should be avoided. A significant negative relationship was found between the relative size and performance. It appears that acquiring relatively large firms increases the risk to performance whereas acquiring very small firms on the other hand may constitute more trouble than they are actually worth. Kusewitt (1985) suggests the target's assets to be on average less than five percent of the acquirer's assets at the end of the year prior to the acquisition.
7) Value is gained through synergies. Overpayment and bidding competitions should be avoided since they decrease the profitability of the acquisition.

Conn et al. (2004) have examined whether acquisitions by multiple acquirers have more favourable impacts on performance than individual acquisitions. They examined 1476 UK public firms that have made more than 4000 acquisitions during 1984 – 1998. They found that the short- and long-term performance of multiple acquirers decline significantly with each subsequent acquisition. Furthermore, they found that this decline only takes place if the first acquisition is successful. For the acquirers whose first bid is unsuccessful, the result is contrary: they experience an improvement in performance, signalling that they learn from their mistakes. However, the companies whose first acquisition has been unsuccessful do not catch up with their more successful counterparts when overall performance is measured. Despite the performance declining if the first acquisition has been successful, these companies do not experience significantly poor acquisitions at the end of the acquisition program. In general terms, they outperform their first time unsuccessful rivals (Conn et. al, 2004). Fuller et al. (2002) found that the cumulative abnormal returns (CARs) are significantly lower for the fifth and higher order bids than for the first one and reasoned that after making many acquisitions rapidly, the bidders become less efficient in negotiating with the targets and end up creating less synergy. They also found differences in how the gains and synergies are divided between takeovers involving public and private targets and subsidiaries: the CARs were significantly negative only for public targets whereas they were significantly positive for private targets and subsidiaries. Yet, as mentioned earlier, the validity of CARs in measuring acquisition performance has been recently questioned (Zollo and Meier, 2008), which brings some ambivalence in these findings.

Zollo and Leshchinskii (1999) studied the post-acquisition performance of 47 US bank holding companies executing 579 mergers and acquisitions during 1964 – 1996 to find out how much acquirers learn from their experiences. Like many of their peers, they found that prior experience as such does not improve post-acquisition performance but the degree to which acquirers articulate and codify their experience in concrete tools does. Moreover, a high level of integration affects the acquirer's long-term performance in a positive way whereas replacing the target's top management affects negatively. The acquirers' integration decisions and learning capabilities have a significant role in explaining performance variations.

2.3 Acquisition Capability Framework

Somewhat different categorisations of acquisition capabilities exist in prior research. Voss (2007) has divided M&A management capabilities into three levels: managing individual transactions, managing an acquisition strategy and managing acquisition portfolios. This study utilizes a somewhat similar acquisition capability framework but further divides the capabilities into four hierarchical levels considered practical for this thesis as shown in Figure 5. In this framework, learning effects move the acquirer from one level to the next one. The first significant learning should take place between the first and the second level when companies have performed several individual acquisitions and developed capabilities to improve their post-transaction performance. The other point for visible learning occurs between the third and the fourth level. A company that has learned to manage acquisition programs should be able to further develop these capabilities. Thereby, developing the acquisition program capabilities is the fourth and final acquisition capability level in this framework.

Each level of the framework will be briefly presented in the following section and the third and fourth capability levels will be further elaborated on in later parts of the study.

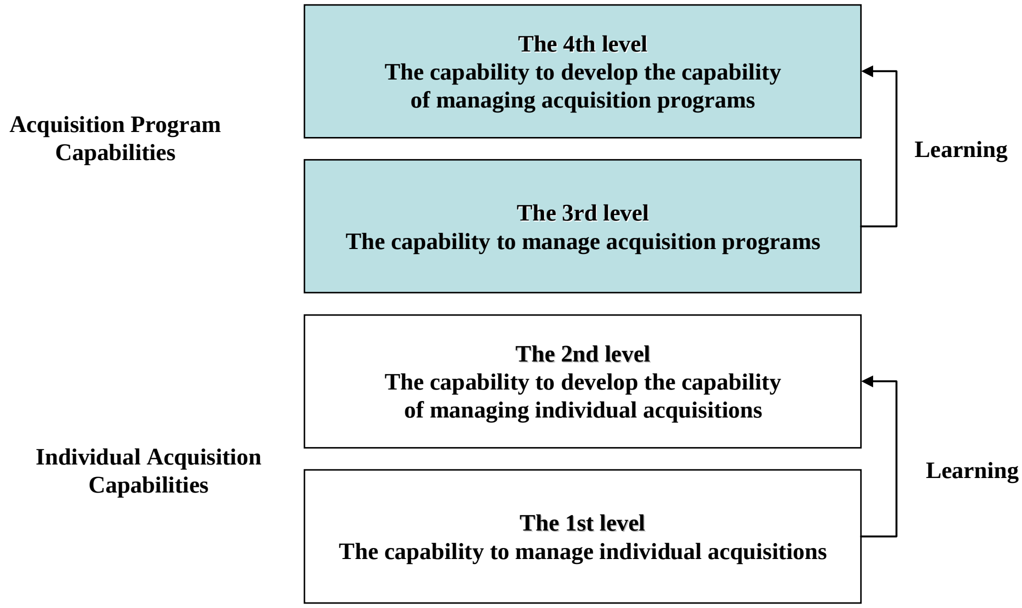

Figure 5: Acquisition capability framework

The First Level – Capability to Manage Individual Acquisitions

Prior research has rather widely focused on capabilities related to individual acquisitions. Haspeslagh and Jemison (1991) have stated that a special focus should be on the pre-acquisition decision-making and the post-acquisition integration processes, since all value creation takes place only after the acquisition. They also point out four common challenges that should be addressed early in the pre-acquisition phase: to ensure that acquisitions support the company's overall corporate renewal strategy, to develop a pre-acquisition decision-making process that allows the company to consider the suitable targets, to manage the integration processes in order to create value and to foster acquisition specific and broader organizational learning. Measuring acquisition performance is somewhat ambiguous and represents an on-going challenge. Some common performance measures include announcement returns, analysts' ratings (e.g. Hayward, 2002), accounting returns on assets and market return (e.g. Kusewitt, 1985). Announcement returns implicate how the market reacts to news of the acquisition, analysts' ratings estimate the acquirer's long-term performance and accounting returns measure the after-tax earnings against the end-year book value of total assets. Zollo and Meier (2008) question the feasibility of short-term M&A performance measures since they do not correlate with any other acquisition performance constructs or overall acquisition performance indicators. They state that any model of transaction or company performance excluding process-level performance is likely to be underspecified. They recommend using multiple M&A performance measures in order to gain a more objective view of the actual performance level. Acquisitions that are motivated for different reasons may also differ in their timing and mode of impact on the company's performance (Ahuja and Katila, 2001) and therefore, the optimal method to measure the acquisition's impact on performance varies according to the objective. Managers prone to overemphasize the meaning of success may for example benefit from stringent performance measures that highlight especially the shortcomings of acquisitions (Hayward, 2002).

Among the main contributions to M&A capability research are the findings of Capron and Anand (2007) who have studied acquisition capabilities by exploring how firms use acquisitions to acquire new resources. They refer to this concept as acquisition-based dynamic capabilities, which include the following three elements: acquisition selection capability, acquisition identification capability and acquisition reconfiguration capability. The researchers define acquisition selection capability as the capability to select acquisitions above other methods. The company should always be able to reflect on options such as alliances, greenfield investments, commercial agreements or simply hiring new employees. Other growth modes should be analyzed since acquisitions are often difficult, costly and likely to produce less value than expected. Capron and Anand (2007) define acquisition identification capability as the company's ability to detect and negotiate with appropriate targets. Acquisition identification capability requires the company to carry out an effective due diligence of all potential targets in order to determine the target value and to negotiate appropriate terms with target's owner. The company should additionally acknowledge when to withdraw from the negotiations. As the final M&A capability related to the post-acquisition phase, Capron and Anand (2007) present the acquisition reconfiguration capability. The acquirer should be able to reshape the target's resources and combine them with its own asset base in order to create entirely new resources. Reconfiguration capability requires the acquirer to selectively divest unneeded resources from the target and dispense with its own resources that have become obsolete.

The Second Level - Capability to Develop the First Level

The second level represents the capability to develop the capabilities of managing individual acquisitions. This M&A capability level is linked to the fourth capability level of developing program-level M&A capabilities. The main difference between the two levels is the fact that although the second-level capability demands structured processes and learning mechanisms, it is still less complex to manage than the fourth-level capability. This second-level capability requires the ability to develop the capabilities of carrying out individual acquisitions, whereas the fourth level first requires the ability to carry out acquisition programs and develop these program-level capabilities.

A successful acquirer with the capability to develop M&A processes for individual acquisitions should find the optimal balance between exploiting existing opportunities and exploring new ones. Targeting companies which only operate in highly similar business fields accelerates specialized learning on that particular field but prevents learning from other businesses. Haleblian and Finkelstein (2002) found that the second acquisitions underperform the first ones when targets are from different industries. Conn et al. (2004) found respectively that the second acquisitions underperform the first successful ones in any case. Therefore, the capability to improve the capabilities of managing individual acquisitions is highly unlikely to produce results within a very short time frame but instead, requires a longer time to develop.

Hayward (2002), who studied serial acquisitions, came up with relevant findings on M&A capability development that can be exploited in examining this second M&A capability level. He found companies performing only very dissimilar acquisitions to lack the specialist knowledge of how to select and integrate any type of an acquisition. This significantly heterogeneous experience threatened to complicate learning and increase bureaucratic costs. Yet, Hayward (2002) also found that too similar acquisitions do not motivate further exploration but hamper the company from attaining new capabilities. Too similar acquisitions forestall the acquirer from co-evolving with the markets and inflict on the acquirer falling into a competency trap. He states that the best option is to acquire moderately similar targets since it enables the acquirer to balance the demands of exploiting existing resources while exploring new growth opportunities.

The Third Level - Capability to Manage Acquisition Programs

The third level moves the focus from individual acquisitions to an acquisition program. Since the definition of an acquisition program is not entirely unambiguous based on existing research, it has been specifically defined for this case study as a strategically managed entity consisting of a stream of acquisitions that operate in the same business and are acquired under a set time frame. The capability to manage an acquisition program requires a well-managed process, which starts by planning the program, continues with implementing the plan and ends with integrating the stream of acquisitions into the acquirer's existing organization (e.g. Albizzatti and Sias, 2004).

The acquirer should ensure that the program does not turn out to be too complex. The acquirer should not for example simultaneously extend to too many business segments or new geographic areas nor should it acquire targets at too short intervals. Acquisition program management presumes that the acquirer is able to digest and integrate new companies at a relatively rapid speed. The acquirer should have a standardized process for managing single acquisitions and for managing acquisition programs. When planning its first acquisition program, the acquirer should accumulate, interpret and analyze all relevant knowledge gained through individual acquisitions. At this stage, the company may also benefit from benchmarking experienced serial acquirers with a good track record in carrying out acquisition programs. As the company accumulates more relevant experience of acquisition program management, the role of its own experience becomes more dominant (Zollo and Winter, 2002).

So far perhaps one of the most essential researches on serial acquisitions has been the work of Hayward (2002). His findings about different types of M&A experience contributing differently to M&A capability development are especially relevant when moving the focus from individual acquisitions to acquisition programs. Chatterjee et al. (2002) and Albizzatti and Sias (2004) likewise contribute to the third M&A capability level by presenting common themes for successful acquisition program management. Their findings will be further discussed in a later part of the study.

The Fourth Level - Capability to Develop Third Level

The capability to develop the capabilities of managing acquisition programs can be described as the fourth M&A capability level. A successful serial acquirer should learn how to manage several acquisitions and acquisition programs simultaneously. The acquirer should be able to prioritize between different opportunities and determine the optimal scope of the acquisition program. The acquirer should interpret and adapt the knowledge gained from previous acquisition programs in order to improve its capabilities to manage the upcoming ones. Hayward's study (2002) is of considerable relevance also on this fourth M&A capability level: the capability to develop M&A capabilities provides that the acquirer is able to discriminate between knowledge and experience that is applicable and that is not applicable in each acquisition program.

The fourth M&A capability level has not yet been extensively studied. The research related to dynamic capabilities provides the most significant contribution. Research on dynamic capabilities states that the outcome of acquisition processes is affected by how well the acquirer can develop a capability specific to managing acquisition process (Zollo and Singh, 2004). Dynamic capabilities are the key essence of developing program-level capabilities and they will be further addressed in later parts of the study.

2.3.1 Examples of Successful Serial Acquirers

Replicating the "best practices" of other successful serial acquirers does not automatically lead to dynamic capabilities even when being well understood by the imitator (Winter, 2003). Firstly, it is difficult to access other serial acquirers' data sheets as an outsider in order to understand the M&A processes. Secondly, most acquisition strategies cannot be imitated as such due to the different premises for different companies. Thirdly, literature provides a rather negative picture of an imitation-based acquisition strategy: Carow et al. (2004) argue that only strategic pioneers having superior information about the markets are able to capture significant advantages by conducting acquisitions in related industries. Palter and Srinivasan (2006) have underlined that mergers and acquisitions are only a tool and should not be seen purely as a growth strategy. In attempt to identify common determinants for successful serial acquirers, a few case examples may yet be worth examining.

Cisco Systems is a commonly used example of a successful global serial acquirer and its acquisition success has been analyzed in various studies. In 1999, Cisco performed 18 acquisitions and further increased the number of acquisitions in 2000. Kaplan (2001) rationalises that Cisco is able to focus on three basic factors resulting in a successful merger: there are clear strategic reasons for every acquisition, it maintains the customer focus after every acquisition and it has clear objectives for each acquisition. Cisco performs a ‘cultural due diligence” before performing the transaction and it avoids buying companies with a very different culture due to the increased difficulties in retaining the key talent. Moreover, Cisco allows the newly acquired companies to maintain their unique characteristics also after the transaction.

Growth at the forefront of technology drives much of Cisco’s M&A activity. It buys companies for their technology and R&D talent and then assimilates them into its culture. Cisco acquires especially small and innovative firms instead of developing each new technology from the very beginning. This enables Cisco to have a fresh set of new products and the latest technological know-how to offer its customers. Cisco attempts to retain most of the target employees including top management and provides strong financial incentives and a vision of the merged entity that includes an important role for the acquired company's employees. The targets are successful companies with special skills, special expertise or a market niche Cisco is willing to take over (Stahl, 2006). Cisco aims to keep the integration process as short and efficient as possible as it fears that a too extensive integration process will destroy the value of the acquisition. Each unit is expected to maintain the customer focus after the acquisition as it is considered the most important issue to manage in the post-acquisition process.

Kaplan (2001) underlines, however, that the acquisition model used by Cisco does not necessarily apply for all companies. Especially the loose integration may prove detrimental for companies that do not specifically wish to expand to a new business segment or that target profitable and efficiently managed companies. The suitable integration process highly depends on the original drivers for the acquisition. Moreover, the strong fit between Cisco’s acquisition strategy and its overall business strategy has made it very difficult for other active acquirers to mimic it (Brueller, 2008).

GE Capital Services, which was formed as a result of dozens of acquisitions, is one of the world’s largest financial service providers. It was founded as a subsidiary of the General Electric Company to offer consumers credit to purchase GE appliances. Since then, the company has grown to a massive conglomerate with almost thirty separate businesses ranging all the way from private-label credit-card services to commercial real-estate financing and railcar leasing. Over half of the businesses have been gained through acquisitions. GE Capital carried out over one hundred acquisitions during the period 1993-1998 and enjoyed a thirty percent increase in its workforce, a rapid globalization of its business and was able to double its net income. GE Capital aimed to make acquisition integration its core capability and a competitive advantage that would enable it to continue its growth. All of GE Capital's almost thirty businesses were constantly searching for new potential targets and its acquisition range ended up being very diverse. GE Capital has managed to routinize its acquisition process to the point where it can effectively integrate most of its acquisitions within one hundred days.

Ashkenas et al. (1998) suggest that there are four particular lessons that should be learned from GE Capital's successful acquisition performance, which are all related to acquisition integration. It is essential to begin the acquisition integration process before the deal is signed. The importance of thoroughly planning the integration has been underlined by several other studies as well and stated to be among the most common pitfalls for acquirers. The second lesson proposes a full-time individual to manage the integration, which would make the process more coherent and efficient. The third lesson is about implementing all necessary restructurings as soon as possible instead of postponing them to final possible moment. As their fourth lesson, Ashkenas et al. (1998) emphasize that in addition to integrating business operations, corporate cultures should be integrated as well.

2.4 Capability to Manage Acquisition Programs

Only little prior research exists on program level capabilities although serial acquisitions or acquisition programs are not a new phenomenon (Kusewitt, 1985; Fuller et al., 2002). Building capabilities for acquisition process management is the top management's task and vital for achieving a sustainable competitive advantage (Haspeslagh and Jemison, 1991). Haspeslagh and Jemison have found four key prerequisites for successful acquiring: acquisitions should be consistent with the acquirer's business strategy, the decision-making process should be well planned from the financial, strategic and organizational point of view, the acquirer should be capable of integrating the target into its existing organization and most importantly, the acquirer should be able to learn from experience. Salo (2006) addresses the dilemma between single and serial acquirers: despite the traditional consensus of individual acquisitions mostly destroying value (Porter, 1980), multiple acquirers seem to be able to outperform their less acquiring counterparts (e.g. Bradley and Sundaram, 2005). Salo categorizes multiple acquirers into those that have a strategic acquisition program and into ad hoc acquirers simply focusing on promising individual deals. Salo (2006) finds that when measured in stock market performance, strategic acquirers are likely to outperform ad hoc –acquirers. According to Salo M&A experience and learning reduces the risks of acquiring if the acquirer is able to build its acquisition capabilities in a focused manner.

There are some findings on the acquisitions of private firms or subsidiaries producing better outcomes than the acquisitions of public targets. Fuller et al. (2002) have studied the pattern of acquisition announcement returns to shareholders by examining companies that have made at least five successful bids within three years between 1990 and 2000. Despite the difficulties in interpreting the true impact of acquisition announcements, they found that the bidder's shareholders gained when acquiring a private company or a subsidiary and lost when the acquiring a public firm. The gain or loss was greater when the target was larger and when the bidder used stock as the method of payment. Fuller et al. (2002) reasoned that the bidders were able to reach a better price level when acquiring non-public companies than when targeting the publicly listed firms.

Laamanen and Keil (2008) examined approximately 5500 acquisitions performed in the United States during the ten years between 1990 and 2000. They studied whether different acquisition frequency patterns affect acquirer's performance and whether company level influences moderate the relationship between the frequency patterns and performance. They present the capability to manage acquisition programs as the third layer of acquisition capabilities and state that serial acquirers develop these capabilities by identifying the optimal number and type of targets and the suitable timing for acquisitions. Laamanen and Keil (2008) found that a high acquisition frequency and a high variability have a negative impact on acquirer's performance. However, the size of the acquirer, the scope of the acquisition program and acquisition experience weakened these negative effects.

2.5 Developing the Capability of Managing Acquisition Programs

The capability to develop the capability of managing acquisition programs remains yet an unexplored area which researchers have only recently become interested in. An indicator of this mounting interest is examining M&A capabilities more from the dynamic capabilities perspective (Anand and Vassolo, 2007/2008). Another signal of the rising interest in M&A capability development is the stronger research focus on managerial cognition and cognitive micro-foundations of capability development (Gavetti et al, 2005; Laamanen and Wallin, 2009). These new focus areas will be next further discussed.

2.5.1 Introduction to Dynamic Capabilities

Although there is no universally applicable description of dynamic capabilities, some simplifications can be made. Dynamic capabilities can be defined as patterned activities to modify, deepen or create ordinary so called zero-level capabilities. Dynamic capabilities are unique and idiosyncratic processes emerging from path-dependent histories and requiring in-depth learning mechanisms (Teece et al., 1997). They are the company's ability to integrate, build and reconfigure internal and external competences in order to adapt to constantly changing environments. Teece et al. (1997) state that a sustainable advantage cannot be achieved merely by having exclusive access to deep know-how but it also requires dynamic capabilities that are difficult to replicate. Eisenhardt and Martin (2000) define dynamic capabilities as the company's processes of using resources to match and create market change. They regard dynamic capabilities as the organizational and strategic routines, which companies use for achieving new resource configurations through emerging and evolving markets. Eisenhardt and Martin (2000) who studied market dynamics, also found that moderately dynamic markets where change occurs frequently but along predictable and linear paths, have stable industry structures and clear market boundaries. The players are mostly well-known and effective dynamic capabilities rely on existing knowledge. In highly dynamic markets change on the other hand occurs on a non-linear basis and in a less predictable manner. The industry structure is not clear and the players are more ambiguous. In highly dynamic markets existing knowledge can even be unbeneficial in case managers over-generalize from past situations (Eisenhardt and Martin, 2000). Laamanen and Wallin

(2009) state that dynamic capabilities reflect the organization's ability to reach new and innovative forms of competitive advantage.

Dynamic capabilities are closely related to the knowledge-based perspective of acquisition management, which views that the outcome of acquisition processes is affected by the degree to which the acquirer develops a capability specific to managing acquisition process (Zollo and Singh, 2004). This knowledge-based capability development may emerge through explicit manuals, forms and information systems as well as in the intangible form of human capacity. The ideal outcome is that the intangible form of prior know-how could be transferred also to the tangible form. The unavoidable downside to very explicit codification of knowledge is that it reduces the firm's ability to protect its expertise and know-how from replication and imitation. Too strict codification furthermore creates barriers to change and thereby hampers learning. However, the advantages significantly offset these downsides (Zollo and Singh, 2004).

Zollo and Winter (2002) link dynamic capabilities with organizational learning by describing them as a learned and stable pattern of collective activity through which the organization generates and modifies its own routines. Dynamic capabilities are structured and persistent and they can be exemplified by an organization aiming to improve its processes or by the ability to plan and effectively execute post-acquisition integration processes. Zollo and Winter (2002) underline that dynamic capabilities are a result of a learning experience, which also constitute the company's systematic methods for modifying operating routines. Teece (2007) disaggregates dynamic capabilities into the capacity to sense and shape opportunities and threats, the capacity to seize opportunities and the capacity to maintain competitiveness by enhancing, combining, protecting and reconfiguring the intangible and tangible assets. Dynamic capabilities can be harnessed to create, extend and upgrade the company's unique asset base. They are a prerequisite for rapidly adapting to a changing customer base and new technological opportunities. Teece (2007) indicates that the extent to which a company is able to develop and employ superior and non-imitable dynamic capabilities determines what kind of intangible assets it may possess and how much economic profit it may earn. He argues that increasing the asset value first requires a full understanding of the company's own asset base. The company should be able to identify the possible knowledge or resource gaps and fill them either by building new assets or by performing acquisitions.

2.5.2 The Cognitive Micro-Foundations of Dynamic Capabilities

Capability development has so far been studied only exiguously from the managerial cognition point of view. Cognition is a forward-looking form of intelligence based on the beliefs of how actions are connected with the outcomes (Gavetti and Levinthal, 2000; Laamanen and Wallin, 2009). Cognition implies how a company is able to deal with complexity and locate the most potential value-adders. Laamanen and Wallin (2009) found that the firm's choices of which capability to invest in were strongly influenced by the profiles of the board members. They found the cognitive micro-foundations of capability dynamics to be different on three levels: on the level of individual operational capabilities, in the evolution of a company's capability portfolio and in the transformation of a company's constellation of co-specialized capabilities.

Individual operational capabilities are repeatable action patterns used in creating, producing and offering products to a certain market. Cognition plays an instrumental role in developing these capabilities. When the company gains more experience, these mental models may transform into articulated rules of thumb or into written manuals. Developing individual capabilities on the operational level requires sensitivity to feedback and adjustments for emphasizing learning. The firm needs to engage in capability development even when not knowing exactly how to develop the capability in question.

At the capability portfolio level, managerial cognition corresponds to management's understanding of how and when to shift the emphasis between different capability areas. Managers focus on developing the capabilities they deem essential, which does not directly imply that they are focusing on the actual key capabilities. Laamanen and Wallin (2009) found specifically that companies had difficulties in managing the development effort so that the focus was kept on the most critical capabilities also in the long-run. The capability constellation was defined by the "eco-system specific set of capabilities needed for an innovation to proceed". The constellation level of cognition requires analogical reasoning and corresponds to the management's ability to envision a business model change that requires many capabilities to be altered at the same time. A company capable of analogical reasoning is able to address novel situations and apply learned lessons to new settings. The managers' experience and analogical reasoning play an important role on this highest level of managerial cognition (Laamanen and Wallin, 2009).

Gavetti et al. (2005) who have likewise studied managerial cognition found that the breadth and depth of managerial experience is valuable only if the manager has a good system for categorizing the environments it operates in and for interpreting the lessons it has learned. This finding concurs with the research on how prior acquisition experience affects the performance of the following acquisitions: only a correct analogy, a valid interpretation of the experience gained and an ability to differentiate between dissimilar transactions emphasizes positive performance. Gavetti et al. (2005) found that performance is not sensitive to the depth of managerial experience, which is determined by the time spent in a particular industry and the capability to distinguish good positions from poor ones. In other words, a manager who has gained a deep understanding of a particular industry should be transferred to a more unsuccessful unit in order for the company to better take advantage of his know-how. Another interesting finding by Gavetti et al. (2005) is that unlike it could be expected, an orthodox use of analogy does not appear to provide any advantage over its heterodox use. Their interpretation is that a company should rather emphasize its search efforts instead of trying to constrain them in a very traditional and predetermined manner.

2.5.3 The Heuristics of Developing Acquisition Processes

The so called fourth level of the acquisition capability framework has been studied by e.g. Bingham et al. (2007) who studied internationalization as an example of an organizational process. Organizational processes such as making acquisitions, internationalization and establishing alliances are essential in building business strategies, developing M&A capabilities and especially in developing dynamic capabilities. Bingham et al. (2007) address the question of how organizational processes become high-performing by focusing on two streams of relevant research: organizational learning from particular type of experience and organizational cognition. In this part of the literature review, the focus is on the latter stream including the heuristics of selecting, prioritizing, pacing and executing specific opportunities.

Heuristics are simple rules for capturing opportunities within a given process. For entrepreneurial companies operating in dynamic markets, simple heuristics means articulated learning and informal rules-of-thumb that are shared by the organization. Heuristics capture discrete opportunities and tend to become more sophisticated as the firm's experience accumulates. Heuristics are process-specific opportunities that depend on the targeted countries and industries, the acquisition targets, customers or the characteristics of the product development processes. Bingham et al. (2007) make a division into lower and higher order heuristics. The lower order heuristics focus on capturing single opportunities whereas the higher order heuristics link these single opportunities together. Selection and procedural heuristics are examples of lower order heuristics: selection heuristics are simply rules for choosing e.g. the type of countries and markets to enter and the target customers whereas procedural heuristics are rules for capturing emerging opportunities and managing the processes. Procedural heuristics lead to a better performance through structured action, improved sense-making and enhanced problem-solving. Higher order heuristics on the other hand are related to time and priorities, and require a greater cognitive sophistication in order to come into effect. Temporal heuristics, which are related to sequence and pace, improve performance by synchronizing different working groups, by enabling managers to maintain momentum and by ensuring that companies operating in dynamic markets are able to capture all the potentially fleeing opportunities. Priority heuristics rank the opportunities hierarchically and enable the company to focus on the most attractive opportunities.

Bingham et al. (2007) found that both lower and higher order heuristics have a positive impact on performance. Especially higher order heuristics are closely related to higher process performance and therefore, they recommend that companies deliberately develop heuristics. They also found that companies with several temporal and priority heuristics such as “taking one continent at a time” or “synchronising entry pace with the country's retail lifecycle” enjoyed remarkable success in their country entry whereas in the most unsuccessful entries, higher order heuristics were almost entirely absent. According to Bingham et al. the companies should deliberately develop heuristics since a higher amount of heuristics contributes positively to performance. The “opportunity-capture” heuristics are central to structuring capabilities especially in dynamic markets and among entrepreneurial firms. Heuristics lead the company to extensive improvisational behaviour that is needed to adjust the unique aspects of each emerging opportunity – and not to engage in unfit opportunities. In other words, Bingham et al. (2007) came to the same conclusion as Hayward (2002) and the numerous researchers studying the impacts of prior acquisition experience on performance: mere experience is not enough. Capabilities rely extensively on organizational processes and cognition, meaning that a cognitively sophisticated encoding is a prerequisite for high long-term performance. Heuristics are at the core of successful, high-performing organizational processes and are thus central to capability development.

2.6 Synthesis of the Literature Review

Companies carry out acquisitions for a variety of reasons: they may seek to increase their market power, overcome high entry barriers, increase speed to market, decrease the costs and risks of new product development or increase diversification. The company may also seek to acquire its most severe competitors as a pre-emptive move in order to reshape the competitive landscape. Yet the rallying point behind all mergers and acquisitions appears to be accelerating growth: mergers and acquisitions have undoubtedly become one of the most important means by which companies implement their growth strategies and seek to expand business.

2.6.1 The Acquisition Program Capabilities Template 1

Existing literature provides some implications of M&A capabilities that are relevant in acquisition program management and in developing the capability to manage acquisition programs. These capabilities will be further summarized here and assembled into an acquisition program capabilities template. This template has been developed on the basis of literature findings and it will provide a starting point for the case study where these literature findings will be reflected on. The acquisition program capabilities template is visualized in Figure 6.

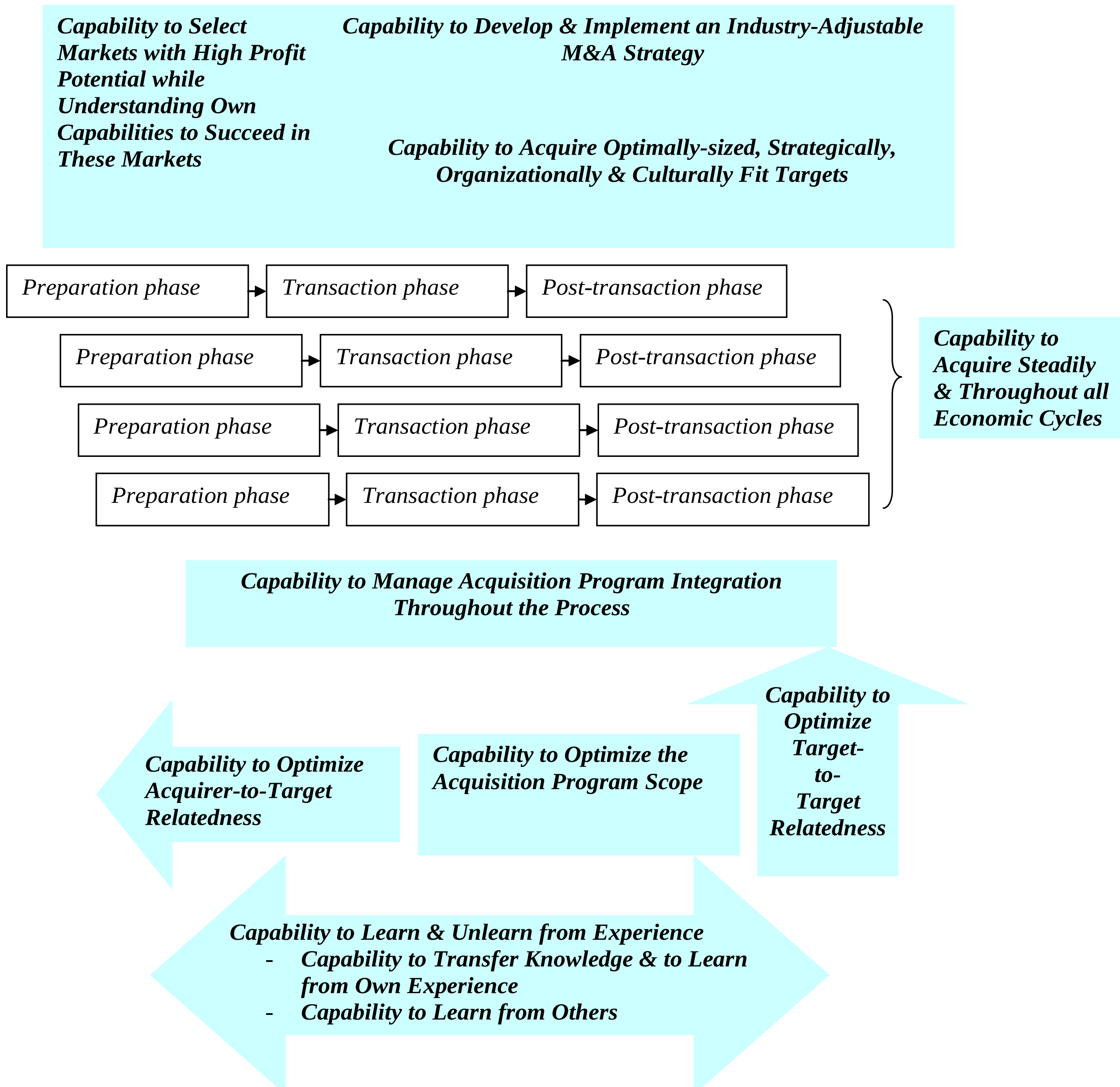

Figure 6: Acquisition Program Capabilities Template 1

Capability to Develop and Implement an Industry-Adjustable M&A Strategy

The acquirer should be able to develop and implement an M&A strategy where the underlying industry characteristics are taken into account. A continuously pursued acquisition strategy is associated with superior acquisition performance due to learning effects (Laamanen et al., 2002). Research states that with the right strategy and the right kind of post-transaction integration, acquisitions can actually create value (e.g. Belcher and Nail, 2000). Morck and Yeung (1992) who studied over 300 cross-border acquisitions by US firms found that certain business strategies work better in M&A activities than other strategies. They found that the acquirer's R&D intensity and advertising intensity were associated with positive changes in the acquirer's valuation. Hopkins (1987b) who divided acquisitions into conglomerate, technology-related and marketing-related strategies found that especially the marketing-related strategy was associated with a distinctly superior position. He found that the companies pursuing this strategy were in fact operating in more profitable industries than other companies and were also enjoying higher market shares in these industries. Hopkins (1987b) on the other hand also found that the consistency of a firm's acquisition strategy was not associated with a better performance but instead, strategies that exhibited "strategic fit" showed superior profitability.

Research has found the suitable acquisition strategies somewhat to depend on the stage of the industry's lifecycle. Anand and Singh (1997) have studied the relationship between acquisition strategies and performance in declining industries by comparing diversification- and consolidation-oriented acquisition strategies. They found that declining industries where the number of attractive targets is limited set additional challenges for acquirers, since they needed to take quick action in order to capture the most lucrative targets before their competitors. In industries that are either experiencing growth or have reached a mature stage, there are naturally more potential targets available. One of the golden rules of a successful M&A strategy is to focus on growth markets instead of only single targets. The company should analyze the industry landscape in order to find the greatest sustainable potential for long-term value creation (Cools et al., 2007).

Research strongly agrees on the importance of a well planned M&A strategy and a professional M&A function. The transparent and professional M&A methodology should steer acquisition processes and develop templates for target screening (Hitt et al., 1998). Routinizing target selection, evaluation and integration reduces the cognitive effort and time spent on individual acquisitions (Nelson and Winter, 1982; Levitt and March, 1988) and is therefore an important element of an acquisition strategy.

Capability to Acquire Steadily and throughout all Economic Cycles

The impact of acquisition pace and rhythm is strongly underlined in the M&A literature. Acquisition rate is traditionally determined as the average number of acquisitions a company undertakes during a certain time period. Acquisition rhythm refers to the variability of the acquisition rate and is measured as the standard deviation of the annual number of acquisitions across the same time period. Rovit and Lemire (2003) who studied over 7000 acquisitions carried out by more than 700 US companies in order to find the "best M&A strategy", discovered that the best acquirers buy systematically through all economic cycles.

Kusewitt (1985) suggests that acquisition rate should be at maximum one per year and at minimum, one in every four or five years. He predicts that large acquirers are able to carry out acquisitions at a higher speed than smaller companies. Laamanen and Keil (2008) endorsed these findings to some extent in their recent study and found a high acquisition rate and a high acquisition rate variability to be negatively related to performance. Similarly to Kusewitt, they found that these negative effects were less severe for larger and experienced acquirers with a broader acquisition program scope. Hovila (2003) studied 5515 acquisitions performed between 1990 and 1999 by 613 public, US based companies within seven technology-intensive industries. He states that the rhythm of acquisitions is a significant determinant of acquirer survival: the more regularly the company acquires, the more successful is the acquisition program. Thus, an irregular acquisition rhythm is strongly related to lower acquirer performance. Similarly to Kusewitt (1985) and Laamanen and Keil (2008), Hovila (2003) found that as the size of the acquirer increases, the negative relationships between pace and performance as well as rhythm and performance weaken.

Acquiring at a very fast speed in general does not appear to generate superior returns. Hayward (2002) found that on average, companies benefit from acquisition intervals of six to twelve months but in case of the prior acquisition being larger, the optimal interval was longer. This can be explained by the smaller acquisitions having less demanding integration requirements. Rather, the relationship between the time elapsed between two acquisitions and acquisition performance has found to be inversely U-shaped (Hayward, 2002). More specifically, Hayward found that the point of inflection was approximately 220 days before the announcement of the acquisition. As the time period grew further, acquisition performance started to decline slowly.

Researchers have also studied the effects of acquisition pace, rhythm and program scope on internationalization. Barkema and Vermeulen (2002) found that a high speed in establishing new subsidiaries and in expanding into different geographic areas or new businesses lower the acquirer's potential benefits. Furthermore, they found that irregularly paced acquiring deteriorates performance. Acquisitions should not be temporally too close or too distant to the prior one and they should be carried out steadily during both, economic bust and boom times (Hayward, 2002; Rovit and Lemire, 2003). Rovit and Lemire (2003) found that the constant buyers, which bought consistently through economic cycles, were by far the most successful acquirer group, followed by the recession buyers who increased their acquisition intensity in recessionary times. These recessionary buyers on the other hand outperformed the companies that focused on acquiring especially during growth periods.

Multiple acquirers seem to outperform purely occasional acquirers or companies refraining from acquisitions – although a high acquisition rate on average is said to have a negative impact on performance. These findings can be explained by the serial acquirers accumulating experience over time and gradually growing their acquisition capacity. Developing acquisition routines and capabilities over time may also enable active acquirers to digest several acquisitions simultaneously, thereby leveraging the negative impacts of a high acquisition rate and variability. The capability to acquire steadily and throughout all economic cycles would appear to be significant for a serial acquirer aiming for long-term success.

Capability to Optimize the Acquisition Program Scope: Capability to Optimize Acquirer-to-Target and Target-to-Target Relatedness

The degree of business relatedness directly determines the acquisition program scope. Therefore, the capability to optimize the acquisition program scope requires optimizing acquirer-to-target and target-to-target relatedness. Voss (2007) determined acquisition type as the other significant factor contributing to M&A capability development in addition to acquisition frequency. Pehrsson (2006) finds that company managers see acquirer-to-target relatedness mainly from five different aspects: product technology, general management skills, end customers, brand recognition and the types of supply channels. Target-to-target relatedness is seen to be determined by the industry the target operates in, its relative market share, organizational structure and its relative size against the acquirer.

Prior research about the relatedness and unrelatedness of acquisitions as a part of an acquisition program is rather limited. Barkema and Vermeulen (2002) have found that there are certain constraints for every company on how much expansion they are able to digest. Additionally, accelerated growth in one business restricts the growth potential from other dimensions (Galunic and Eisenhardt, 1996). A majority of the studies have found that a higher acquirer-to-target relatedness leads to a better performance than if the acquirer and target operate on very different businesses (e.g. Kusewitt, 1985; Singh and Montgomery, 1987; Anand and Singh, 1997). Business relatedness is likely to reduce the potential performance-hindering effects and ease the integration. Singh and Montgomery (1987) found that also the acquired firms achieve greater gains in related acquisitions.

A high target-to-target similarity eases the integration and results in a positive effect on performance. Hovila (2003) found that a high acquirer-to-target and a high target-to-target relatedness weaken the negative relationship between acquisition rhythm and performance but that the impact is significant only when the acquirer is small and the performance-measure is market-based. Laamanen and Keil (2008) found, contrary to the majority of prior research and even contrary to their own hypotheses, that expanding the acquisition program scope actually has a positive effect on the serial acquirer's long-term performance.

In the light of the majority of M&A research, the optimal acquisition program scope can be determined as rather narrow. An acquirer should target companies preferably from the same or at least a similar industry where it operates itself and focus on firms that are relatively similar to its prior acquisitions. It should also take the industry-specific features into account when planning the acquisition program. In conclusion, a moderately narrow acquisition program scope with a moderately high acquirer-to-acquirer relatedness and a moderately high target-to-target relatedness would appear to produce the best outcome for a serial acquirer.

Capability to Acquire Optimally–sized, Strategically, Organizationally and Culturally Fit Targets

The optimal size of a target is a subjective, firm-specific measure. It mainly depends on the characteristics of the acquirer and the objectives of the acquisition program. Hayward (2002) divided acquisitions into four categories, which were presented in a preceding part of the thesis. This categorisation was made according to what the acquirer aims to achieve through the transactions: enter new markets, strengthen its market position, elaborate on its market position or extend its operations to new markets. The scale of acquisitions should be in the right proportion to the acquirer's business activity. Larger companies should avoid acquiring too small companies since they only take up resources without providing sufficient shareholder value (Fuller et al., 2002). Smaller acquirers on the other hand should avoid acquiring too large companies, since they tend to result in wealth losses for the target's shareholders. The larger the target, the more it has negotiation power and ability to extract value from the transaction and the more complex is the integration.

In addition to the numerous factors M&A research has found to have an impact on acquisition performance, the strategic, organizational and cultural variables affect acquisition success as well. These variables together determine the combination potential of the bidder and the target (Jemison and Sitkin, 1986; Seth, 1990; Larsson and Finkelstein, 1999; Kaplan, 2001). Kaplan (2001) argues that recognising the optimal fit between strategic intent and integration methodology leads to success. The strategic fit of a potential acquisition determines the potential value of the acquisition whereas the cultural and the organizational fit affect the realization of this value (Jemison and Sitkin, 1986; Kaplan, 2001). Strategic fit indicates the degree to which the target complements the company's overall strategy. Organizational fit measures how the companies' governance and specific characteristics match. Cultural fit implies how the acquirer's and the target's business cultures cohere with each other.

Larsson and Finkelstein (1999) studied more than 60 mergers and acquisitions and found that strategic fit contributed positively to synergistic benefits. Successful implementation of an acquisition program requires the company to know when to discard acquisition opportunities falling outside the scope of its strategy and when to embrace them as a new potential thrust. The targets in one acquisition program should have identifiably common determinants. The acquirer's and targets' managers should be capable of collaborating and working together for the new strategic tasks. The capability to acquire optimally-sized targets that are also strategically, culturally and organizationally fit requires the acquirer to emphasize the target screening phase supported by a well planned M&A strategy.

Capability to Learn and Unlearn From Experience

Organizational learning has been examined widely (Hedberg, 1981; Shrivastava, 1983; Fiol and Lyles, 1985; Levitt and March, 1988; Huber, 1991). It would appear natural to assume that prior experience and learning are closely related to each other. However, research has shown that not all prior experience results in learning effects (e.g. Kusewitt 1985; Haleblian and Finkelstein, 1999; Zollo and Singh, 2000; Hayward, 2002; Albizzatti and Sias, 2004). Therefore, the relationship of experience and organizational learning require a more in-depth analysis.

The causalities between decision-making and acquirer's performance remain rather unclear despite ambitious attempts to analyze the post-acquisition performance (Zollo and Winter., 2002). Acquisition experience has traditionally been divided into homogeneous and heterogeneous experience: acquiring highly similar targets or acquiring highly dissimilar targets. Earlier studies did not find significant differences in how similar or dissimilar experience affected the acquirer's performance but contested that all types of acquisition experience has positive impacts (Lubatkin, 1983). However, later studies started to question these findings and concluded that the nature of prior experience in fact does matter – as does the way this experience is interpreted and implemented (Haleblian and Finkelstein, 1999; Barkema and Schijven, 2008). Especially heterogeneous acquisition experience has proved to be some kind of a paradox and studies have produced contradicting results of its effects on performance.

Hayward (2002) who studied industries such as forest products, food processing, telecommunications and regional banking, found alongside many of his peers that acquisition experience is not sufficient for generating superior performance. His study shows that performance is positively related to experience on three preconditions: firstly, prior transactions are not too similar or dissimilar compared to the prevailing acquisition. Secondly, prior acquisitions should have generated only small losses. Thirdly, the time period between two acquisitions should neither be too long nor too short. Heterogeneous experience allows the company to examine a wider selection of acquisition processes and thus provides a larger scope to search for the causal patterns to develop M&A capabilities but too dissimilar experiences may turn out overwhelming for companies operating in an environment of “bounded rationality” (e.g. Barkema and Shijven, 2008).

Haleblian and Finkelstein (1999), who also studied the heterogeneity and homogeneity of acquisitions, presented a framework for generalizing and discriminating between different types of acquisition experience (see Table 1). They found the effect of acquisition experience on performance to be U-shaped: the best performers were either the inexperienced ones who did not over-generalize their targets or those with a vast experience and the ability to discriminate between acquisitions. Acquirers performing acquisitions similar to prior ones tend to outperform their counterparts that only perform very dissimilar acquisitions. Haleblian and Finkelstein (1999) concluded that companies especially fail to learn from failures they do not recognise. Moreover, poor management and inadequate acquiring expertise affect learning negatively.

Table 1: Generalizing & discriminating experience (Haleblian and Finkelstein, 1999)

		Antecedent Condition	
		Similar Experience	Dissimilar Experience
Organisation Behaviour	Organization: Response: Discrimination:	*Appropriate* *Generalization* *(Positive)*	*Inappropriate* *Generalization* *(Negative)*
	Organization: Response: Discrimination:	*Inappropriate* *Discrimination* *(Neutral)*	*Appropriate* *Discrimination* *(Neutral)*

Being unable to discriminate between different kinds of acquisition experience can be referred to as overgeneralization, which is a common pitfall in serial acquisitions (e.g. Haspeslagh and Jemison, 1999; Albizzatti and Sias, 2004). Whereas overemphasizing experience may lead to an unfavourable outcome, it is also possible to falter for the opposite reasons: being unable to identify, capture or reuse the existing know-how is another pitfall for serial acquirers (Albizzatti and Sias, 2004). Some studies argue that in reality, no homogeneous acquisitions exist. These studies underline that all acquisitions are different and therefore, very limited kind of acquisition experience is applicable (Ahuja and Katila, 2001).

In conclusion, existing research has found that when acquisition experience is applied correctly, it can have a positive contribution to performance. Experience accumulation is a necessary but insufficient condition for successfully developing acquisition capabilities. Having acquisition experience from a variety of settings can be problematic for companies in early stages of M&A capability building. In contrast, experience from similar actions enables even inexperienced companies to learn and improve their performance. Deliberate organizational learning mechanisms are the crucial element for long-term success and M&A capability development.

Organizational learning on a closer level can be divided into three strategic contexts (Barkema and Schijven, 2008): research on negative experience transfer, explaining that not all experience is positive, research on deliberate learning, stating that not all experience accumulation results in learning and research on imitation and vicarious learning, justifying that companies not only learn from own experience but also by utilizing external sources.

The capability to transfer knowledge in an acquisition process is essential in order to learn from experience. Simply transferring acquisition routines from one industry to another is similar to trying to apply old lessons to new settings where they do not work (Barkema & Schijven, 2008). Transferring experiences across various industries or entry modes, such as acquisitions and joint ventures can even lower performance. Zollo and Leshchinskii (2001) even state that corporate acquisitions tend to fall into the category where prior experience not only does not help enhance the performance of the on-going acquisition but due to the very likely high heterogeneity and high causal ambiguity, may actually undermine the performance. Being able to apply the right kind of experience and know-how in the right situations and being able to discard unusable knowledge is also referred to as "unlearning" (Hedberg, 1981; Nystrom and Starbuck, 1984; Klein, 1989). Benefitting from previous experiences depends on whether the company is able to differentiate between relevant, applicable knowledge and unusable knowledge. Therefore, it is essential to both learn and to unlearn from prior experience.

Unlearning and learning require explicit learning mechanisms (Zollo and Winter, 2002). Learning needs to be deliberate and it requires the company to create expertise instead of only refining already familiar routines (Bingham and Eisenhardt, 2007). "Semi-automatic" experience accumulation does not enhance learning, quite on the contrary (Barkema and Schijven, 2008). Zollo and Leshchinskii (1999) have found that developing acquisition-specific tools such as manuals and decision-support systems have a positive effect on performance although this positive effect diminishes in the long-run. Documenting the due diligence –check-lists, system conversion manuals, branch staffing and product mapping software and human resource manuals therefore tends to result in a better performance.

In spite of there being quite an extensive amount of studies related to organizational learning, literature on learning from the perspective of M&A -capabilities is still rather scarce. Voss (2007) who studied M&A capability evolvement states that creating a new M&A capability requires so called double-loop learning, which has also been described as generative learning (Senge, 1990) and strategic learning (Mason, 1993). Whereas single-loop learning takes place through detecting and correcting errors and by adding activities to the company's specific competencies, double-loop learning is more active: it occurs when the company is able to question and modify its existing norms, procedures and objectives. Double-loop learning aims to find ways to change the organization when necessary. Improving existing capabilities depends on the profoundness of replication and retention. The retention of the M&A capabilities comes from routinizing the gained knowledge. (Voss, 2007).

Companies may learn from each other based on the sociological theory of imitation (DiMaggio and Powell, 1983) or the psychological theory of vicarious learning (Bandura, 1977). Many companies intentionally aim to learn from others already when planning their business strategies (Barkema & Schijven, 2008). Some research suggests that an inexperienced acquirer is likely to learn more from others before it is able to gain remarkable experience itself. At later stages the ability to learn from others somewhat levels down due to imprinting and organizational inertia. This applies for acquisitions and strategic settings as well. Especially in times of uncertainty or change, the tendency to imitate a successful company's acquisition strategy is particularly high (Karim and Mitchell, 2000). Imitation can be categorised into frequency-based, trait-based and outcome-based and the so called second-order imitation. The second-order imitation refers to companies mimicking the imitative behaviour of their competitors and peers (Barkema and Schijven, 2008). In horizontal acquisitions, companies especially tend to imitate the acquisition behaviour of firms to which they are tied through board interlocks. These companies also rely on their interlock partners in valuing the potential targets (Haunschield, 1997).

The psychological theory of vicarious learning is presented as another example of deliberately imitating others. Vicarious learning – also referred to as exploratory learning – can be explained as exploring alternative methods to perform tasks without incurring any of the costs or risks associated with actually experimenting on these alternatives (March, 1991). Vicarious learning of competitors' successful actions and strategies is often seen as a method to overcome the bonds of experience (Levinthal and March, 1993). Studies on vicarious learning therefore challenge the general findings of learning from experience: where highly heterogeneous experience has been found even to attenuate learning, vicarious learning has shown only to have positive impacts on the acquirer's performance (Barkema and Schijven, 2008).

When examining and interpreting the capabilities to learn from others, there is one essential point to reflect on: in spite of several studies implying that companies imitate their competitors in order to improve their own performance, this research still provides very little for developing M&A capabilities. These studies do not actually measure how imitation affects the post-acquisition performance but focus on examining whether imitation in general occurs or not. Moreover, imitating the actions of others does not automatically signify deliberate learning as it is often based on assumptions about other companies having competencies that are lacking from one's own resource base (Barkema and Schijven, 2008).

Capability to Select Markets with High Profit Potential while Understanding Own Capabilities to Succeed in these Markets

A skilful serial acquirer should recognise the markets with high profit potential. Successful serial acquirers focus on growth markets instead of only single targets (Anand and Singh, 1997). The company needs to be capable of addressing markets with true growth opportunities and value creation potential and it must be able to analyze the industry landscape in order to find the greatest sustainable potential for long-term value creation (Cools et al., 2007). There is no use in targeting markets where the costs exceed the long-term profits. Before entering a market through an acquisition program, the level of returns available in that particular market should be evaluated. Even more importantly, the acquirer should also estimate whether it has the realistic capabilities to compete for these returns (Hayward, 2002). The acquirer should understand the requirements of the targeted business, its own capabilities and the long-term prospects in this business in order to succeed.

Capability to Manage Acquisition Program Integration throughout the Process

Successful acquisition program integration requires a clear allocation of responsibilities among and within the acquiring and acquired organization. Moreover, another determinant of successful integration is the involvement of the acquirer and target's employees in the process. Cohen and Levinthal (1990) for example suggest that all the employees participating in the mergers and acquisitions should have sufficiently knowledge of M&A specialization. Acquisition integration is often also referred to as "post-acquisition" integration. However, several more recent studies underline that integration should not be seen as a discrete phase taking place only after the deal is signed. Ashkenas et al. (1998), Hitt et al. (1998) and Zollo et al. (2004) underline that integration should begin already when negotiating the deal. The first discussions with the target's management should begin before the transaction takes place. Discussions about e.g. basic management styles may reveal such significant differences in the acquirer and target's organizational cultures that even acquisitions with favourable financials may be discarded (Ashkenas et al, 1998). In these cases it is naturally impossible to analyze in retrospect whether the acquisition would have been successful or not and whether proper integration could have been possible despite these differences. Nevertheless, thorough pre-acquisition integration discussions are essential for the acquirer and target to have a mutual understanding of acquisition process.

A successful acquisition provides that both parties share a common vision and strategy on the assimilation and integration process. Even a strategically fit acquisition may fail if the integration is not handled properly. The pace of the integration affects the performance although the findings of the optimal speed vary. O'Reilly and Pfeffer (2000) purport that faster integration leads to a better outcome than a postponed integration. Cools et al. (2007) likewise state that delaying integration planning until the deal is closed is the most common value-destroyer. Kaplan (2001) on the contrary does not support fast integration without qualification. He emphasizes that the driver behind the acquisition strongly influences the optimal type of integration: if the acquirer's main intention is to cut the target's costs, assimilation is essential but preserving the old culture or management is not, since the target's old management and organization structure may be reasons for the high costs. Therefore, restructuring the organization can be a prerequisite for achieving any cost synergies. Kaplan (2001) proposes a different integration approach for acquisitions where the main motivation is either expanding the product or service line, expanding business, expanding to a new customer segment or entering an entirely new market. He reckons the best solution in these cases to be a moderate level of integration.

The capability to manage integration requires determining and communicating employees' and managers' responsibilities and roles before the transaction and after the transaction. Especially the roles of the integration and line managers should be explicitly determined and the acquiring organization should have a due diligence team to carry out at least the financial, commercial, legal and technical due diligence processes. Ashkenas et al. (1998) yet refer to the problematic role of this due diligence team: it usually gains the deepest insight of the target but is often disbanded right after the transaction. This hampers the integration process and results in valuable knowledge being lost. The functional and business leaders of GE Capital for example focused on integration only in their own units in the earlier acquisitions and there was no one responsible for the corporate-level integration. The critical role of an integration manager was recognised only after having performed acquisitions with and without an integration manager: the acquisitions guided by an integration manager turned out more successful than the transactions performed without an integration manager. Ashkenas et al. (1998) concluded that integration managers should preferably be picked from the corresponding due diligence teams, have strong interpersonal skills and be sensitive to cultural differences. Integration managers should deliver a disciplined integration plan with clearly set milestones.

Zollo and Leshchinskii (1999) have found that a higher degree of knowledge codification leads to a better performance. Information should be distributed to the parts of the organization that have not been closely involved in acquisition process. The entire organization of the acquiring and acquired company should be involved in integration process to the extent that ensures the motivation to work for common goals. The acquired company's existing management team should not be substituted or removed without a careful assessment since it is likely to destroy shareholder value and increase the complexity of integration process (Zollo and Leshchinskii, 1999).

As important as it is to begin the integration phase well in advance of the actual transaction, it is also important to conclude the integration at the end of the process. The line managers play an important role in concluding integration in a professional manner: the integration phase should be finalised by the integration managers handing operational responsibility to the line organization.

Figure 7 visualizes the progress of the study after the literature synthesis and the introduction of Acquisition Program Capabilities Template 1.

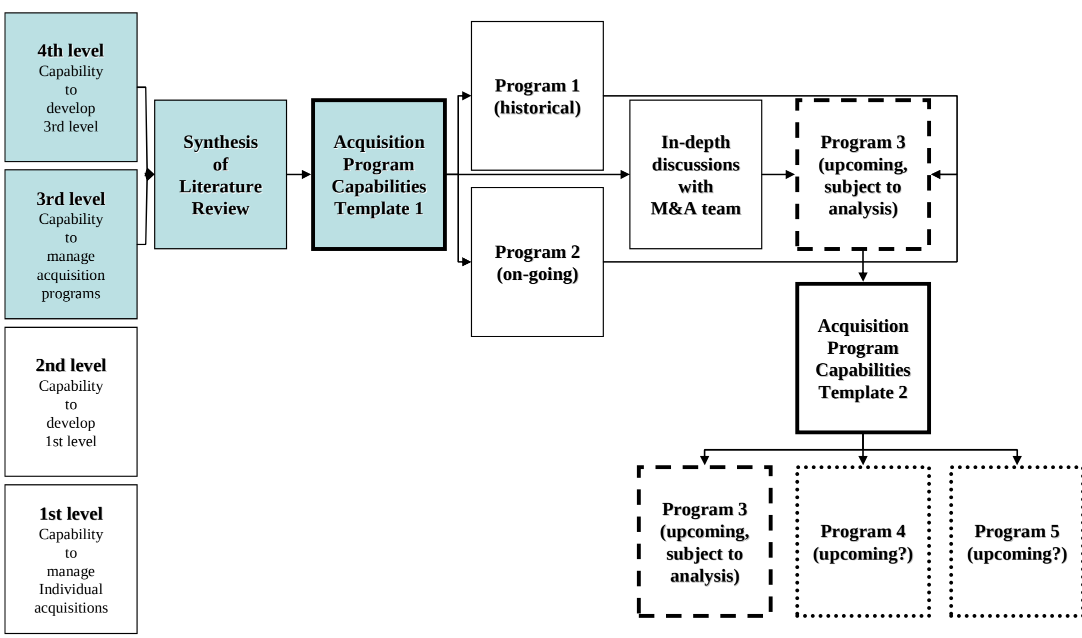

Figure 7: Progress of the Study

3 Methodology

3.1 Research Setting for the Case Study

The theory-building case study approach presented by Eisenhardt (1989) was considered the most suitable for the purpose and nature of the study. This method was chosen due to several reasons: firstly, there was a lack of qualitative research on acquisition program capabilities when starting to work on the thesis. Since one purpose of the research was to develop new theoretical propositions of M&A capability development and the theory-building case study method provides a possibility to generate novel and empirically valid theory, this methodology was regarded justifiable. Secondly, M&A capabilities require intensive field research, which plays a major role in the theory-building case research. Thirdly, as case studies are applied to examine complex and unexplained phenomena in a holistic manner, the method serves well the purpose of the study which was to enhance the prevailing understanding of the research problem. The theory-building research requires a broad and thorough literature review to ensure stronger internal validity, wider generalizability and a higher conceptual level for the study (Eisenhardt, 1989). Therefore, a vast amount of studies were examined during the process. The case selection in this study was deliberately conducted by purposive sampling. The research problem was addressed by studying two acquisition programs. Ontologically the study took a realistic case-based approach. One completed acquisition program and one still on-going acquisition program were analyzed and a template for new potential acquisition programs was developed on the combined basis of the literature and case study findings.

3.1.1 Sample

The Case Company's two acquisition programs, which in this study will be referred to as Program 1 and Program 2, were examined and analyzed prior to developing the template for implementing forthcoming acquisition programs. A majority of the acquisitions in these programs were carried out by one business division but the programs focused on two different businesses. Both were implemented within a three to four years' time scale and consisted of four to five acquisitions each.

3.1.2 Data Collection

Like in the typical theory-building studies, the data sources of the study include multiple data collection methods such as interviews, observations and archival sources. The research began with examining the case material of each individual acquisition in Program 1 and 2. The existing case material was based on approximately twenty interviews of people who had been involved in acquisition processes. The material had been gathered in the beginning of year 2008 (Uotila).

In this study, the focus was on the program level: individual acquisitions were examined more as a part of the two acquisition programs than as separate acquisitions. In addition to the case material, other relevant archives of the company such as annual reports and financial statements were examined. The very first part of the interviews was performed when still analyzing the archives and other existing material. When interviewing the relevant people about the acquisition program cases, the questions were drafted to serve two main purposes: to thoroughly understand the decision-making process behind the acquisition programs in order to analyze the reasons for the outcomes and to identify the key capabilities behind the successful management of acquisition programs. The head of the M&A team who also acted as the instructor for the thesis, was present in three of these preliminary interviews to explain the background of the project and to make further specifications for questions if needed.

A total of 15 new interviews with 10 interviewees were made for the study, each lasting on average from one hour to 2.5 hours. Interviews were open-ended theme interviews, which made the interviews more flexible by allowing discussion also on new topics having emerged during the interviews. The focus of the interviews was on gaining an understanding of the implementation of the acquisition programs focusing especially on the resources used throughout the process. The objective was first to understand what the people involved in the acquisition programs considered as the key capabilities for making the acquisitions successful. Each interview was partly analyzed right after taking place, which also eased the planning of subsequent interviews. A part of these interviews were performed face to face and a part was carried out as phone interviews due to the respondent’s distant location. Additionally, the archives of circa 20 interviews performed in 2008 (Uotila) were used in the analysis as additional empirical case material.

The thesis was written in the Case Company's headquarters in the same open-plan office where the M&A team works. Therefore, the team members could be consulted whenever necessary and the information flow was active throughout the process of writing the thesis. The limitation of only two acquisition program cases was to some degree countered by the acquisition programs covering rather many individual acquisitions. The experiences of the individual acquisitions were also discussed in the interviews. Hence, the findings presented in the thesis mostly draw from the experiences of people who had been involved in the acquisitions from the very beginning of the acquisition programs.

3.1.3 Validity and Reliability

As findings based on qualitative research are especially sensitive to criticism of being influenced by the researcher's own subjective interpretations, it is crucial to ensure the validity of the study by a correct set of operational measures. Firstly, multiple sources of evidence were used in the case studies. People from different hierarchical levels such as the top management, divisional management and business management were interviewed in order to minimize the potential bias of the study. A priori specification of constructs was used to help to shape the initial design of the research on theory-building (Eisenhardt, 1989). This a priori specification of constructs also permits the researcher to measure constructs more accurately. As the framework for the case studies was conducted on basis of the existing literature, this aspect of the case study differs from the grounded theory (e.g. Glaser and Strauss, 1967), which mainly rejects all initial frameworks and proposes very little guidance from the existing research.

Additionally, it is important to recognize that in a case study research, early identification of the research question or constructs is not necessarily possible but instead it is a more tentative process. The originally developed constructs as well as the research questions may shift focus during the research process. In order to ensure the internal validity of the data, the underlying theoretical reasons for the relationships must first be identified. Shaping the hypotheses in a theory-building case study includes measuring constructs and verifying or contesting relationships. The most important feature of the theory-building research is that it is being built as close as possible to the ideal of no theory under construction or no hypotheses to be tested. Although this ideal is never truly achieved, a key feature of a theory-building case study still is the possibility to make adjustments during the data collection process. The process enables unique patterns of each case to emerge before the patterns are generalized across multiple cases. Compact case descriptions and descriptive tables have been drafted in order to justify the strong causal relationship between the research question and the conclusions. The case descriptions have also been discussed in feedback sessions with the interviewees after having analyzed the interviews.

4 The Research Context

4.1 The Case Company Profile

The Case Company is a publicly listed industrial company operating globally in several lines of business. These businesses involve engineering and selling new products and after-sales services. The Case Company sells the products of the acquired companies through its own global branch network to new and existing customers, referred to as cross-selling. The company consists of four different business divisions which are here referred to as Business Division A, B, C and D. The Case Company has pursued an acquisition-supported growth strategy for several years, which has led to significant annual growth rates. The company has focused especially on higher value creation and expanding to new business segments. The organic growth of the acquired units from 2002 to 2007 after their completion has been more than twenty percent per annum whereas the overall growth for the Case Company excluding acquisitions has been less than ten percent per annum. At the same time the acquisitions represent eleven percent of current total sales. The acquisitions have therefore affected the overall growth.

The Case Company has a clear focus on specific strategic goals. The Case Company can be defined as a serial acquirer with ambitious growth targets, which it believes cannot be met merely through organic growth and the current acquisition intensity. Furthermore, the Case Company can be described as a skilful and experienced acquirer when it comes to individual acquisitions. A majority of the Case Company’s acquisitions have been relatively small but yet, they have contributed to growth. The Case Company seeks to be involved in the total lifecycle process. On a practical level, this can either be achieved by an earlier entry point in the value chain or by extending the product and service lifecycles. As its supportive strengths, the company points out its relative size that creates significantly negotiation and standing power as well as the ability to leverage its extensive geographic presence and good market position. As value drivers, the Case Company identifies factors such as having the capacity and resources to grow in existing product and service categories and markets, gaining know-how and necessary capabilities to expand to a new business and expanding the offering with closely related products and services.

Due to the economic situation deteriorating significantly while writing the thesis, the deal flow was drastically dropped at the turn of the year. The Case Company aims to move its focus from individual acquisitions to acquisition programs in the future after the financial turmoil has quieted down.

4.2 The In-House M&A Team

M&A tasks have been assigned in a focused manner in the Case Company. There is a professional, in-house M&A team that supports the business divisions in their acquisitions. The M&A team works directly under the Chief Financial Officer and is responsible for the strategic development of the company through M&A and alliances. It has an important role in developing the acquisition strategy and managing the post-acquisition phase. The head of the M&A team, Mr. H is a regular visitor of all the divisions' management teams. The in-house M&A team can be described as the key function of acquisitions, since it is responsible for executing the transactions. The M&A team leads the negotiations, it carries out the acquisition transaction phase and it has a role in planning and supervising the post-transaction integration phase. "*We bring capabilities to assess the potential synergies, post-acquisition integration and the finances in a realistic manner*", Mr. H describes the M&A team's role. The M&A team entails professionalism into acquisition processes. This professional approach is assured by business divisions not discussing with potential acquisition targets without the presence of an M&A team member.

When starting to work on the thesis, the M&A team consisted of Mr. H and three of his subordinates, Mr. A, Mr. B and Mr. C. Mr. H was recruited into the Case Company in 2001 after having pursued a long career in a top-ranking consulting company. At that time, there was yet no particular M&A team and he was mainly solely responsible for the M&A operations. In 2005, Mr. X was transferred to the team. In 2006 Mr. H hired Mr. A as his second subordinate and shortly afterwards he hired two other people, Mr. B and Ms. A. Ms A served as a general financial analyst for the team but only stayed with the company for one year. In autumn 2008, a third team member Mr. C was hired to replace a person who had rotated internally to another position,

Mr. H is involved in planning the corporate level acquisition strategy and usually takes part in the larger acquisition projects. Mr. A, who has been in the M&A team for the longest time after Mr. H, has so far gained experience from acquisitions performed in all business divisions. He has also had the main responsibility for post-transaction integration. In the end of year 2008 a decision was made to gradually shift more integration responsibility to business divisions. However, since no acquisitions have been performed in 2009, the impacts of this decision are still invisible. Mr. B mainly accounts for Division B and the newly hired Mr. C is the contact person for Division A. All the team members come from different backgrounds: two had experience of the banking industry one had been working in the consulting business and a third one had worked in different business control positions in the Case Company before joining the M&A function. At the time of starting the thesis, the team was looking to hire two new junior people into the team to replace Ms. A. These two people were hired by the end of year 2008 to provide analytical support for the other team members. The M&A team is visualised in Figure 8.

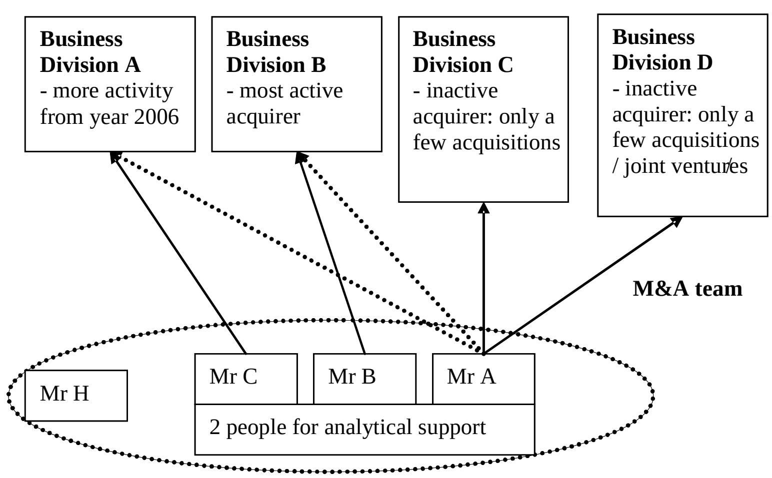

Figure 8: The M&A team of the Case Company.

4.3 The M&A Process

The M&A process of the Case Company is depicted in Figure 9. The team has developed the M&A process guidelines in cooperation with the corresponding business division. These documented guidelines are to be followed in every acquisition. Division B is the most active acquirer. The Company Board of Management is involved in the more infrequent large strategic acquisitions. In Division B, the M&A process guidelines had been in place for several years. All the other divisions had been acquiring less actively but the activity had gradually been increasing especially in Division A where the official guidelines for M&A processes were set in the end of 2008. These guidelines mainly followed those of Division B. Divisions C does not acquire actively due to the lack of suitable targets and Division D has preferred joint ventures over acquisitions and therefore has no own divisional M&A process guidelines. The M&A process description presented here is mostly based on the guidelines of Business Division B. It is justifiable since it is the most active acquirer and these process guidelines have set an example for the other divisions. Moreover, the two acquisition program cases studied for the thesis both fall mostly under Division B.

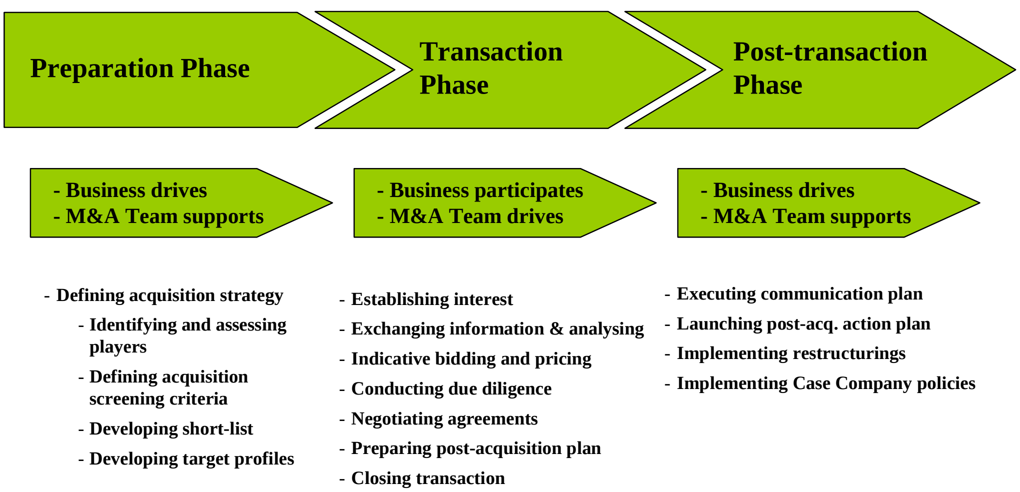

Figure 9: The M&A process description.

4.4 Acquisition Preparation Phase

A majority of the practical acquisition preparation is done in a project specific acquisition team which consists of all the relevant people who can contribute to the business case. The preparation phase starts by the Board of Management developing the business strategy and the divisions setting their own M&A strategies. The M&A

strategy is regarded to have gradually increased the efficiency of target screening. Mr H., the head of the M&A team, is involved also in the acquisition strategy planning.

Identifying Targets and Adding Targets to Prospect List

The next step in the preparation phase is to identify potential targets. Identifying targets in different business divisions requires somewhat diverse searching criteria. In Division B, it is especially important to consider who the customer is. Its business is also somewhat less dependent on market cycles and more local by nature than the business of Division A. Markets in Division B business are mostly dominated by smaller players and profitability varies a lot across companies. There are larger and more established companies operating in Division A's core business, where integration of products and systems is increasingly important. The product and technological fit is an important screening criterion especially in Division A.

The leads come from various sources. In most cases, they come through the regional sales directors, the country management teams or the divisional managers by screening the market and collecting information. Leads can also emerge from local sales people, people from other business divisions, M&A team members or for example external bankers or consultants whose business involves searching for potential targets. Alternatively, since the Case Company is a well-known active acquirer, potential targets occasionally contact the Case Company themselves and inform that they are selling their business. According to Mr. H., the business divisions and the M&A team then discuss the potential leads and elaborate on their feasibility: "*We exchange e-mails for example about whether it is an interesting target or not. The target is discussed and reviewed on each step of the approval process.*" Mr. A from the M&A team described the traditional process in the following way: *"The process usually starts by a sales manager reporting an interesting target to Mr. E's team which then prepares a "one- or three-pager" that is then delivered to the division's approval team. The business decides itself what it will focus on and what not."* Mr. E is the head of the business development function of Division B, which closely cooperates with the M&A team in examining new potential targets. All levels of the organization are encouraged actively to search for new potential targets especially by the corporate and divisional management: "*We get a lot of inputs from the local level since we have deliberately* *stated that we want to be active acquirers and that we want to build a global network.*", Mr. F, the head of Division B, states.

Reviewing Targets by Approval Team

There is a smaller Approval Team in the Business Division B for evaluating the target. The business owner, who has the overall responsibility for the acquisition, must be willing to go on with the acquisition in order for the process to continue. The Approval Team either decides to send the lead forward, requests for further information or rejects the proposal. According to the company's own records, approximately fifteen percent of the preliminary profiles result in acquisitions. In case of many approved acquisitions, the approval team prioritizes them before pushing the leads further.

4.5 Acquisition Transaction Phase

The targets that pass the screening criteria are then shortlisted for further examination. The shortlisted targets become potential acquisition cases and serve as the starting point for the transaction phase. The M&A team is responsible for carrying out the transaction phase. The basic steps for acquisition processes are always the same but in case of smaller acquisitions the process can be somewhat lighter. The market analysis for smaller companies may for example be less thorough or the due diligence process may be more compact than for larger acquisitions. The guidelines for the acquisition transaction phase are rather detailed: the main action points and the expected end products are provided for each step between the identification of the shortlisted target and the closing of the deal.

Establishing Interest, Exchanging Information and Analyzing Targets

The acquisition transaction phase starts by assigning responsibilities and establishing the core acquisition team. Usually three people are nominated in the beginning of each acquisition case: a sponsor from the business division management team to ensure the division commitment, an M&A team member to head the transaction and a business owner who has the business responsibility for the acquisition. In the beginning of the transaction phase, the target is contacted and if mutual interest is established, a non-disclosure agreement is signed and preliminary information about the target's business is exchanged. This phase of establishing interest and exchanging information usually only takes a few days of active actions but the waiting periods may turn out to be long.

According to the Case Company's M&A guidelines and the interviews, the most important issues to analyze are the strategic fit and the financial and operational attractiveness. The high profitability of the target was also mentioned as an important selection criterion by most of the interviewees as well as growth opportunities and value creation potential.

The M&A team prepares valuation models for each acquisition, which includes the assumptions behind the valuation, the growth expectations and projected synergies. A description of acquisition rationales should be embedded in the business case description. According to the interviewees, the business case description should provide answers at least to the following questions: "*Why would we acquire that company and not another one from the same industry? What is the target's strategic fit? What added value does the acquisition bring in terms of products, services or locations? Can we provide our customers something new with the acquisition? Why do we think we could outperform the current owner of the target in increasing the sales and profits?*" The acquisition case is then presented to the division's management team, which either decides to go on with it or reject it.

Indicative Bidding, Pricing and Initiating the Process

In the indicative bidding and pricing stage, the acquisition team agrees on the negotiation tactics and finalizes the valuation and synergy estimates of the target. Additionally, it agrees on the so called 'last price' and 'must haves' that will not be compromised on during the negotiations. The roles in the case-specific acquisition team are also assigned at this stage and the bid letter is written, approved and sent to the target with an offer price and essential pre-conditions. The terms and conditions agreed on this stage are still only indicative. The concrete actions begin after the indicative bid has been agreed with the seller. A timeline is set for conducting the due diligence and for carrying out the entire process in general. At this point a Letter of Intent is usually prepared and a request to receive certain legal, financial, technical, commercial and environmental information regarding the target is sent to the seller.

Conducting Due Diligence, Negotiating Agreements and Closing the Deal

After having contemplated on the business case, the acquisition team performs a very thorough legal, financial, technical, commercial and environmental due diligence with the assistance of external advisers. The commercial due diligence also includes interviewing the key managers of the target. "*We perform the so called management assessment as a part of the commercial due diligence meaning that we interview all the key managers from the target companies. We have to start this at a very early point in order to have time to interview all the key players and find out whether their management team could fit our organization …It is necessary to interview all the target managers in order for us to know how cooperative and motivated they are and whether it would be feasible to keep them in our organization."* Mr. A describes.

The due diligence phase is seen as the most essential, arduous and time-consuming part of the M&A transaction phase and the interviewees described it as detailed and profound. *"The due diligence is fully satisfying in my opinion. The only issue is whether the business plan is always sufficiently detailed",* Mr. B stated. Mr. A shared this view: "*I would say that we know quite a lot about the company when we are about to sign the sale and purchase agreement. We always analyze the companies very thoroughly from the business side and from the financial side."* Mr. F even reckons that at the time of the transaction, the Case Company knows more about the target than the target knows about itself. Since the business processes have been analyzed thoroughly in the due diligence –phase, the acquisition process "*rarely falters because something critical has escaped notice*". After the due diligence reports have been prepared, the final acquisition proposal is sent to the management and the Board of Directors for approval. They may guide the acquisition team with a set price range and non-negotiable pre-conditions. The negotiation stage was viewed important also in terms of building closer cooperation between the Case Company's local management team and the target. The final agreement and documentation is signed after getting the aforementioned approvals.

4.6 Post-Transaction Phase

The company has a detailed concept for the integration phase. It starts by executing the communication plan after which the post-acquisition action plan is launched. In the action plan, there are milestones such as the first thirty days during which the most critical issues are to be addressed. Integration should start during the first hundred days. The Case Company divides integration into legal and operational integration, integration of the support functions and the Enterprise Resource Planning (ERP) systems and into integration of working methods, which stands for introducing the target into the globally unified “Case-Company-way-of-working”. Mr. A, who has been involved in all the integration processes in the last years, states that to the credit of the new integration concept introduced in the end of year 2006 no acquisition case has failed since. “*Before the integration concept, there were detailed plans about acquisitions. However, the plans were not always implemented, since there was no one responsible for the post-acquisition integration or the implementation.*” He regards that the Case Company has been able to develop its M&A capabilities with this clearly structured integration concept.

From the beginning of year 2009 when still writing the thesis, the main responsibility of the operational integration was transferred from the M&A team to the business divisions. This rearrangement was set in place since the business divisions have the overall responsibility for the acquisitions and thereby also resources and the incentives to successfully manage the post-transaction integration.

4.7 From M&A Processes to Acquisition Program Capabilities

Chatterjee et al. (2002) who studied successful serial acquirers such as Cisco Systems found three common themes to all successful acquisition programs: first, all successful programs rely on a well-established process to extract the value from the acquisitions. Secondly, successful serial acquirers comply with the parameters set down by the acquisition program. Thirdly, skilful serial acquirers do it repeatedly and formalize the process as the acquirer learns more from each case. Complying with the specific parameters set down by the acquisition program makes the acquisitions a part of the acquisition program instead of being only ad hoc –transactions. Chatterjee et al. (2002) argue that deviating from the clearly set guidance transforms the particular acquisition into an ad hoc exercise. They present Cisco Systems as a case in point: Cisco does not believe in merging two equals and therefore, prefers to acquire early stage small private firms. However, at one point it failed to comply with its own acquisition profile by acquiring a large and well-known public company. This ended up deteriorating its information advantage and turned out to be an unsuccessful move. Chatterjee et al. (2002) also underline the importance of actively repeated acquisition processes in order to gain experience curve advantages. They also argue that most successful acquirers rely on replicable internal processes in order to identify acquisition opportunities at a fast speed.

The business strategy of the Case Company's and its divisions provided a rough framework for both acquisition programs. The M&A strategy facilitated planning and managing Program 1 whereas the lack of a similar strategy resulted in Program 2 acquisitions appearing less strategic. The Case Company has established selection criteria for single targets and has replicable M&A processes for individual acquisitions. However, it has so far implemented only a few acquisition programs and is still on its way to establishing more structured and replicable program level processes.

Table 2: Prerequisites for successful acquisition programs (Chatterjee et al., 2002).

	Three common themes to all successful acquisition programs *(Chatterjee et al, 2002)*		
	A well-established process to extract value from acquisitions?	**Adherence to parameters set down by the program?**	**Active deal flow, formalizing the process?**
Case Company: Single acquisitions	***Yes*** *, very detailed M&A process guidelines*	-	***Yes*** *, frequent acquisitions*
Case Company: Acquisition programs	***Yes, some*** *program-level guidance*	***Yes, some:*** *acquisitions to operate within particular business field & acquisitions to serve vision of becoming full-service provider*	***Yes, some*** *program implementation but more ctiveness on level of single acquisitions*
Program -level example (Cisco)	*Cisco integrates all acquired firms very quickly*	*Cisco does not believe in merging equal businesses, acquires early stage small private firms*	*Cisco continuously tracks emerging technologies and acquisition-minded cultures*

Albizzatti and Sias (2004) have studied sixty Fortune 500 companies that have implemented acquisition programs. As Chatterjee et al. (2002), they have found three common factors for successful serial acquirers: successful serial acquirers have created an acquisition profile that generally defines the number and type of deals they wish to pursue. An acquisition profile stands for strategies such as rolling up competitors, filling a portfolio gap by acquiring particular products or talent or by expanding geographically through acquisitions. Secondly, successful serial acquirers have built organizational capabilities and tools to support their acquisition and integration engines: they are not merely leveraging a minor team but the entire organization to help assimilate newly acquired businesses. A well-developed acquisition and integration engine requires everyone in the organization to understand how to create value from a new business. As an example, they mention a health care company demanding all functional professionals to spend almost a third of their time on acquisition activities related to their jobs. This company also has well-defined metrics to measure performance, which provides employees the necessary incentives for M&A related activities. The final common feature for successful acquisition programs is an acquisition and integration blueprint that lays out a disciplined process for the upcoming deals. Ablizzatti and Sias (2004) underline that integration planning should take place already before closing the deal, there should be a portfolio of past deals to help define the next ones and most of all, no time should be wasted between the transaction and integration stage.

The Case Company has a clear acquisition profile: it acquires frequently and it often seeks to acquire new in-house skills, accelerate business growth and strengthen its presence in strategic locations. However, it does not quite use its acquisition profile to drive the organizational structure in the way Albizzatti and Sias (2004) recommend. Their findings would imply that the Case Company – often carrying out skill-related acquisitions – would have a decentralized organization to nurture the entrepreneurial spirit of its often small and privately owned targets. The Case Company's policy has, however, been to integrate the small and often entrepreneur-driven acquisitions into its organization quickly – there has not been a major focus on preserving the entrepreneurial culture. Yet the Case Company seems to have learned something from its past failures as the different organizational structures are being taken increasingly into account. The Case Company has well-tailored acquisition and integration blueprints for individual acquisitions, which also apply on acquisition programs. Significant development has taken place in a few years in formalizing and structuring the M&A processes but there is still some room for improvement.

Concluding, the Case Company has highly developed processes for individual acquisitions in terms of both frameworks. It nevertheless lacks some of the features regarded as essential for a serial acquirer implementing a successful acquisition program. These deficiencies mostly arise from the lack of program-level resources and the lack of a formalised acquisition program process.

Table 3: Prerequisites for successful acquisition programs (Albizzatti and Sias, 2004).

	Three common themes to all successful acquisition programs *(Albizatti and Sias, 2004)*		
	An acquisition profile defining the number and type of deals acquirers wish to pursue	**Organizational capabilities & tools supporting acquisition and integration engine**	**An acquisition and integration blueprint**
Case Company: Single acquisitions	*(Not applicable)*	***Yes, some:*** *a dedicated M&A team involved in each acquisition and integration, involvement of Case Company's local level varies*	***Yes*** *, clear M&A and integration directions*
Case Company: Acquisition programs	***Yes,*** *acquire targets frequently and mostly aim to acquire new skills and enter a new business*	***Yes, some:*** *M&A team involved in single acquisitions but only few dedicated program-level resources*	***Yes, some:*** *clear M&A and integration directions developed for single acquisitions, perhaps partly applicable on program-level as well*
Explanation for theme	*Filling competence gaps by acquiring skills, extending business geographically etc.*	*Entire organisation involved in assimilating the newly acquired target, using acquisition profile to drive organisational structure*	*Lays out disciplined process for upcoming deals*

4.8 M&A Capability – Current Level

The current level of the Case Company's M&A capability is evaluated against the Acquisition Capabilities Template 1 while drawing some implications from the framework of Voss (2007) who studied the evolutionary cycle of capability development. Voss presented the capability evolution cycle to consist of generative variation, internal selection and replicating and retaining knowledge, which will be further discussed in the following section.

Capability to Develop and Implement an Industry-Adjustable M&A Strategy: the Case Company's business divisions develop their own M&A strategies independently, since the divisions operate in different industries and have different business focuses. The nature of their business impacts the feasibility to pursue an M&A supported growth strategy: Division C operates in a business where M&A are not a common growth mode and the few acquisitions tend to be large-scale whereas Divisions A and B operate in a business where also smaller acquisitions are common. Since the business divisions have the in-depth knowledge of the type of an M&A strategy that best suits their business, it would most likely not add value to establish a corporate level M&A strategy. Therefore, the capability to develop and implement an M&A strategy lies within each business division which are supported by the corporate M&A function and appears advanced especially in the actively acquiring divisions.

M&A research underlines the importance of a professional M&A function and M&A coordination mechanisms, which Voss (2007) addressed as a part of generative variation. Coordination mechanisms include M&A structures, M&A processes and M&A systems. M&A structures refer to assigning tasks in an optimal manner, meaning that the right people are nominated for the right tasks. The Case Company's M&A team and detailed M&A processes for individual acquisitions serve as the M&A structure. M&A processes refer to allocating resources by distributing knowledge and resources between business units, departments and employees. There should be an authorization process where the procedures and timelines are set for requesting permission to start the negotiations, enter a bidding process and ask for the final approval of the Board of Management. The Case Company has well-defined guidelines for M&A processes. M&A systems stand for synchronizing activities in a way that enables capturing synergies between activities and resources. The right incentives motivate managers to offer their know-how to be used in forthcoming acquisitions. Haspeslagh and Jemison (1991) suggest this to be done by linking acquisition outcomes to personal rewards. Additionally, implementation of efficient performance evaluation systems enhances learning and establishes a clear cause-effect link. The Case Company does not have specific M&A incentive systems or company-wide M&A performance evaluation systems but they are embedded within the company-wide performance evaluation systems.

Voss (2007) defined generative variation as the level of drawing external knowledge into the company as well as recombining capabilities. Generative variation is the first stage of the M&A capability evolution cycle and can be viewed as a prerequisite for the capability to develop and implement an M&A strategy. Drawing on external knowledge means that the company intentionally acquires knowledge from an external source and then assimilates it within the organization. External sources can be consulting companies, investment bankers or other successful serial acquirers. This external knowledge can only benefit the company when it is transformed into actions. When hiring Mr. H five years ago, the Case Company chose an external candidate from a top-ranking consulting company. Moreover, almost the entire M&A team has been hired from outside the company: from investment banks, consulting companies and private equity houses. The Case Company occasionally uses consulting companies and investment bankers as additional information sources as well as examines other serial acquirers.

In conclusion, the capability to develop and implement an industry-adjustable M&A strategy lies within the Case Company's business divisions. The capability can be evaluated as relatively high particularly for the actively acquiring divisions.

Capability to Acquire Steadily and throughout all Economic Cycles: The Case Company has on average performed six acquisitions a year while maintaining a steady acquisition rate. As an active strategic acquirer it aims to maintain this high acquisition frequency and steady rate during economic upswings and slowdowns. Although acquisitions were temporarily put on hold at the turn of the year as the economic situation significantly deteriorated, the Case Company has yet continued to examine the business segments it had regarded as attractive ones. There is no unanimous view on what the exact acquisition rate should be but there are consistent findings on a steady rate being better than a highly varying rate and frequent acquirers in general outperforming the infrequent ones. These findings can at least partly be explained by frequent and steady acquirers having more opportunities to learn and steadily improve their M&A capabilities than ad hoc acquirers engaging in acquisitions on a more ex tempore basis. The Case Company mainly appears to understand the significance of steady acquiring.

Capability to Optimize the Acquisition Program Scope: Capability to Optimize Acquirer-to-Target and Target-to-Target Relatedness: It is difficult to measure the exact business relatedness of the Case Company and its acquisitions, since most of the acquired companies are private entrepreneurships that are not listed in any public industrial classification systems. The Case Company's business divisions mostly acquire firms from their own business or a closely related one thereby ensuring high business relatedness. The acquisition programs that will be further examined in the empirical part of the study, both covered a certain business and therefore mostly consisted of highly interrelated targets. The acquisition program scope appeared to be relatively narrow for both programs, which is recommended by the majority of the M&A research.

<u>Capability to acquire Optimally-sized, Strategically, Organizationally and Culturally Fit Targets:</u> As a large company, the Case Company should avoid acquiring too small firms, which research suggests would only take up resources without providing sufficiently added value. Most of the Case Company's acquisitions have been relatively small but they have yet had a positive impact on its growth. The Case Company's M&A strategy has been to expand to new businesses by acquiring companies from strategically important locations. The strategic fit of the targets is regarded among the most important selection criteria. However, it takes a longer time period to evaluate whether the targets actually fit the acquirer's strategy or not. The individual acquisitions of the two acquisition programs complemented the Case Company's strategy to expand to these two new businesses by acquiring new skills and know-how. Especially some acquired entrepreneurships experienced problems in terms of organizational and cultural fitness due to their more hierarchical organizations. These entrepreneurships tended to have a somewhat more small-business-minded business culture than the Case Company, which caused some difficulties in the integration stage.

Voss (2007) presented internal selection mechanisms as a part of her capability evolution cycle. In the Template 1, these mechanisms best fit under the capability to acquire suitable targets in spite of internal selection mechanisms by Voss's (2007) definition having a slightly wider applicability. Internal selection mechanisms can be measured by the power mandate, the level of persuasion and coalition building. Power mandate indicates the authorization to perform acquisitions. M&A is an accepted and encouraged strategy from the divisional management level and from the Board of Management to drive growth in the Case Company and to develop the business. Proposals and plans involving M&A are common and divisions are asked to actively develop their M&A pipelines. In the Case Company, there is an official authorization by the Board of Management level to involve the M&A team in all acquisitions. Persuasion signals how strongly the importance of M&A is actually underlined on the different organizational levels. In the Case Company, top-down M&A persuasion is very strong: the Division B management encourages the regional sales managers to actively search for new acquisition targets and also to encourage their own subordinates in this search. In other divisions the encouragement for target screening is somewhat less active, since the divisions acquire to a smaller extent. Coalition building stands for the depth of unsolicited cooperation between the business side and the M&A function. The level of coalition building is emphasized in the Case Company in addition to the strong mandate from the Board of Management for the business owners to involve the M&A team in each acquisition. The empirical findings suggest that the business divisions feel they get the necessary support from the M&A team to push through their acquisition ideas.

Capability to Learn and Unlearn from Experience: The Case Company has a routinized target selection, evaluation and integration processes which it has developed over the years. Voss (2007) underlined the importance of routinized activities as a part of knowledge retention, which she divided into routinization through repeated enactment and codification and routinization through preserving M&A expertise. Routinization is enhanced by similar acquisition types, a high acquisition frequency and an escalated emphasis towards the end of the preparation phase. Codification is achieved through individuals, documentation, databases and different systems. However, the companies are acquired from different business segments and therefore the targets may be rather heterogeneous even under one business division. The degree of M&A process routinization grows towards the end of the acquisition preparation phase, which is typical also for strategic acquirers and the professionalism of the M&A team is high. The documentation regarding M&A processes is detailed and the M&A team uses several databases to search for relevant information of companies' financials, business news, deal statistics, trading data, competitor analyses and market data. The Case Company has an internal M&A database where it systematically stores all the documentation about previous, on-going and terminated acquisitions. This database is accessible to all the M&A team members and managers of the corresponding business divisions.

Voss studied learning from the viewpoint of replication, which she described as the first building block for organizational learning. She found replication to occur through two different perspectives: by evaluating success models through adaptive variation and from the managerial perspective through process definitions and group discussions. Replication of success models signals how well the company is able to repeat the actions and patterns that have proven successful. This mostly depends on the Case Company's M&A team, which is in charge of updating and developing M&A processes and structures. The Case Company acknowledges the importance of developing its acquisition processes and in 2008, it carried out the second major post-acquisition evaluation of all acquisitions performed in the 21st century, the earlier one having taken place in year 2005. The reasons for acquisition success and failure were thoroughly analyzed and conclusions were communicated to the Board of Management. Learning from prior acquisitions has resulted in improved sales synergies and integration management. Replication via adaptive variation indicates the importance of understanding different acquisition challenges. In most cases, previous acquisition processes cannot be applied to new situations as such but require flexibility. An example of replication through adaptive variation is that the M&A team has used a more flexible approach when acquiring smaller, entrepreneurial companies compared to acquiring larger corporations. The Case Company therefore in part takes the targets' specific characteristics into account although especially due diligence was still occasionally viewed as too rigid by the M&A team members. Replication through process definitions refers to providing M&A process definitions in order to ensure the thoroughness of all M&A projects. M&A process definition is highly developed in the actively acquiring divisions, Division A and B and the less actively acquiring divisions use these same process definitions when needed. Replication through group discussions stands for sharing relevant information with the people involved in M&A processes in order to enable the full usage of valuable lessons. The M&A team is involved in all the acquisitions and occasionally have feedback discussions and therefore, they are able to share the relevant information with one another and use this knowledge in forthcoming acquisitions. These learning mechanisms will be further discussed in a later part of the study.

Capability to Select Markets with High Profit Potential while Understanding Own Capabilities to Succeed in These Markets: The literature underlines the importance of targeting growth markets instead of only single attractive companies. The market growth potential has been among the paramount criteria when the Case Company has sought to expand to a new business. Moreover, when expanding to a new and unfamiliar business, the divisions first seek to acquire a critical mass of the necessary key skills in order to achieve credibility and to be able to compete in the business, thereby following the recommendations of M&A research.

Capability to Manage Acquisition Program Integration throughout the Process: The Case Company has a global integration concept to be used in all the integrations.

Integration planning starts during the negotiation stage and the due diligence phase when the key managers of the target are interviewed and its facilities and machinery are checked. Integration management of single acquisitions therefore occurs throughout the process. There is less empirical evidence on how well the company has managed to integrate acquisition programs and this will be further discussed in the empirical part of the study.

5 The Acquisition Program Cases – A General Outline

Size of the Individual Acquisitions and the Acquisition Programs

The relative size of the targets is measured by using two methods: the target's net sales divided by the acquirer's net sales and the transaction value divided by the equity market capitalization of the acquirer at the end of the fiscal year prior to the acquisition announcement. The market value of the acquirer is defined as the sum of the market value of equity, long-term debt, debt in current liabilities, and the liquidating value of preferred stock (Shareholder's equity and liabilities in the Annual Reports). According to Moeller et al. (2005), in order to be defined as an economically significant acquisition, the transaction value should be at least 1% of the acquirer's market value. Although all the acquisitions in Program 1 and 2 fall short of this indicator, they yet contribute to the company's overall growth and profitability. Moreover, since the research subject is acquisition programs, it is more feasible to calculate the combined net sales and transaction value of each program than merely to focus on individual targets (see Table 4).

Table 4: Relative sizes of the programs.

	Relative size of program*	
	target net sales / acquirer's net sales	transaction value / market value of acquirer
Program 1	1,33%	0,88%
Program 2	4,40%	3,68%

The two acquisition programs used as case examples, Program 1 and 2, were among the few streams of acquisitions the Case Company's management level regarded as acquisition programs. All the four acquisitions in Program 1 had been carried out by Business Division B whereas four out of the five acquisitions in Program 2 were also performed by Division B and one by Division A. Program 1 was implemented on a three-year timescale from 2001 to 2003 and Program 2 has been implemented on a five-year timeline from 2004 to 2008 and has so far included five acquisitions. Program 2 is still active and will most likely be continued in the future. It was necessary to devise acquisition programs as a process description in order to be able to analyze management of the programs. This process description was built analogously to the one used for individual acquisitions. The process description is presented in Figure 10.

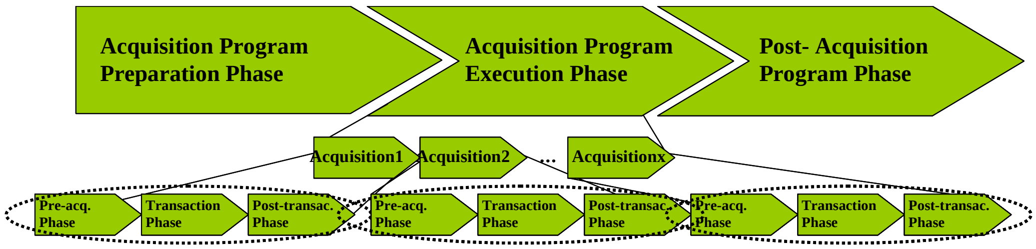

Figure 10: The process description for acquisition programs.

Most of the acquisitions in both acquisition programs operated at least seemingly in a fairly related business field. The acquisitions had estimated payback times from five to twelve years, most of them falling under the range of six to eight years. All the acquired companies were on average financially sound at the time of the acquisition in spite of some negative pre-acquisition performance figures. The transactions were all made by cash only. In all the acquisitions of the two acquisition program examined, financial estimates and free cash flows were projected for at least five years. The Case Company regards cash flow generation as the most important measure in determining the feasibility of each individual acquisition. The transaction price, the expected risk level and the discounted payback time were calculated based on the annual discounted cash flows.

The figures outlining the questions that were considered relevant in the acquisition program preparation phase, acquisition program execution phase and post-acquisition program phase are presented in Appendix 2. In the acquisition program preparation phase questions regarding the M&A strategy, the main aspirations behind the programs and the analyses that had been carried out before the first transactions were presented. The aim was to evaluate the depth of the pre-acquisition program planning. The program execution phase was seen to consist of numerous individual acquisitions. The execution stage therefore includes target identification, target selection and post-transaction integration. Many questions about individual acquisitions had to be presented as well in order to analyze the management of the acquisition programs. In the target identification phase, the aim was to find how and by whom each target had been identified. In the target selection phase the aim was to understand how the specific targets had then been selected – and whether the different managerial levels had provided support in the selection phase. Finally, in the post-transaction phase issues such as cross-selling and integration management were addressed as well as the retention of target's old managers and key employees.

The final stage of program management was defined as post-acquisition program phase. This phase is not exactly unambiguous since integrating individual acquisitions can for example either be viewed as a part of the program execution phase or the post-program management phase. Some issues presented as a part of the post-program phase such as the Board of Management's and Division managers' level of commitment are neither exclusively related to this phase but are rather relevant throughout the whole process. These issues are yet presented in the post-program phase since analyzing them provides that the program has been active at least for some while. The objective was to understand the decisions and actions performed when a program was reaching an end or after terminating an acquisition program.

5.1 Acquisition Program 1

Table 5: Basic information of Program 1.

		Relative size of target*
Target	Year of acquisition	target net sales / acquirer's net sales
AP1-1	2001	0,37%
AP1-2	2002	0,37%
AP1-3	2002	0,17%
AP1-4	2003	0,43%
TOTAL		1,33%

* = at the end of the fiscal year prior to acquisition

5.1.1 Acquisition Program Preparation Phase

Division B was seeking to grow through entering a new business, referred to as Business 1. It saw itself as a lifecycle business and aimed to capture a larger share of the value chain by becoming a full-service provider. The long-term objective was to serve all parts of the company's core products. Furthermore, Division B was seeking to expand its services from its own products to similar products of other companies. In 1999 the Case Company engaged a top-ranking consulting company to develop a growth strategy for it. Expanding to Business 1 was identified as a new growth opportunity. A more detailed M&A strategy was prepared for the business expansion. The M&A strategy presented three main alternatives for business expansion and reaching the growth targets. The first and most attractive option would have been to acquire the market leader Company X and thereby to gain rapid access to the markets with a wide customer base. Company X had a worldwide offering in all the main service fields, a good reputation and a strong brand and was thus a "self-evident" number one target. However, it ended up refusing to sell its operations. This led Division B to choosing the second-best option of gradually gaining foothold in the markets by acquiring smaller local companies and growing the business to strategically important locations. "*Once we have identified a business which potentially suits our needs, the goal is to have a global coverage… There are certain key locations where we have to be present in order to be a truly global service-providers*", stated Mr. G who is a member of Division B management team and was appointed to coordinate the acquisition program. He was granted a lot of independent authority and appeared to have been very motivated to run the program.

Mr. G came up with an idea to establish a separate brand for the acquired companies in Business 1, Brand B. Brand B was to provide services outside the Case Company's own installed base whereas the Case Company would provide the same services to its own installed base under its own name. This differentiation was done "*to provide a better service from the marketing-point of view*". The value proposition of Brand B was also different from the Case Company's traditional value proposition. Mr. G described that the Case Company also "*felt embarrassed in attacking the new market with its own brand*", indicating that the Case Company estimated some targets might create a defensive attitude towards the acquisition as a consequence of conceiving the Case Company as a competitor.

5.1.2 Acquisition Program Execution Phase

Target Identification and Selection Phases

All the four acquired companies had been identified in the consulting analysis as the best or second-best options within their respective regions. However, there were somewhat contradicting views about how much the analysis was utilized in the end. According to Mr. G it was not extensively reflected on after the beginning of the program. "*You don't usually just read a document and follow it "blindly", you make* *your own analyses as well"*, he described. Yet, according to Mr. F and Mr H, the analysis played a central role during the course of the program. Target screening was mostly coordinated by Mr. G and Mr. F. The geographic area was the dominating screening criteria since globally there are only a limited number of locations the Case Company views as strategically important. Each target was considered potentially interesting and value-enhancing although in some cases the estimated risk was rather high. The transaction phase of each acquisition studied as part of the two acquisition programs followed the established M&A process guidelines.

Post-Transaction Management

The operational post-transaction integration mostly took place on the local level. However, their level of involvement of the local units in integration appeared somewhat insufficient in spite of Mr. G's positive views: "*The local level was very involved in all of these cases in my opinion.*" Brand B companies were rather regarded as competitors by other local units of the Case Company instead of being seen as a part of the Case Company's organization. This led to deteriorated cross-selling efforts and in one case even to a loss of a small business branch. The main problem appeared to be in communication and thereby the local units often not understanding the purpose of the acquisitions. This failure in communication was also acknowledged by Mr. G who viewed that the local managers traditionally play an important role in acquisitions. However, he assumed that the local managers and regional sales directors had been sufficiently involved in the acquisitions in spite of the archives (Uotila, 2008) indicating the local managers themselves having a different view. "*If you carry out an acquisition process together with the local company, then you have much deeper knowledge on the local level, you basically know everything… I think the local people have been involved appropriately: the people who it was possible to involve were all taken along with the process*", Mr. G described.

5.1.3 Post Acquisition Program Phase

The significance of proper integration had been addressed already when planning the acquisition strategy. However, the separate branding and the late operational integration with the Case Company caused lost synergy opportunities. When asked how closely the managers of the acquired companies communicated with each other, Mr. G described their meetings held every third month and how they knew each other beforehand "*because they were a part of the Brand B network*". Mr. G described the mutual communication between the companies as very active. Together with Mr. F, he served as the contact people from Division B. The Case Company integrated all the four acquired companies into its organization as one entity after making the decision to give up Brand B. Especially the employees of Brand B companies viewed it as a necessary step due to the difficulties they had experienced in every-day working resulting from the perceived competitor status.

5.2 Acquisition Program 2

Table 6: Basic information of Program 2.

Target	Year of acquisition	Relative size of target* target net sales / acquirer's net sales
AP2-1	2004	0,28%
AP2-2	2005	1,00%
AP2-3	2006	0,80%
AP2-4	2006	1,68%
AP2-5	2007	0,64%
TOTAL		4,40%

* = at the end of the fiscal year prior to acquisition

5.2.1 Acquisition Program Preparation Phase

Program 2 targeted a new business segment of which the Case Company had very limited prior experience, referred to as Business 2. This new business supported the aspirations of the Case Company to become a full-service provider. Moreover, Business 2 had long appeared attractive with good growth opportunities. The stated objective was to selectively expand to the high-profit and low-competition opportunities in this market and to be present in certain key locations that would enable the Case Company to achieve a global coverage in this new line of business. "*The philosophy was to be present at least in three continents*", stated Mr. G underlining the geographic ambitions behind the acquisition program. "*The plan was to create competence in Business 2 and commercially to increase the offering so that we would have strong global presence in Business 2 within five years*", said Mr. M who was appointed as the manager of AP2-4. Prior to year 2009, there were different business lines which the business of the Case Company had been divided in, each having a separate manager. Mr. M was appointed as the manager of the business line of Business 2 some months after the Case Company had acquired the fourth acquisition of the program, AP2-4.

The main focus in Program 2 was to acquire skilled labour and in-house knowledge and thereby to achieve the necessary credibility in the new business. Division B had implemented Program 1 successfully and it therefore had more experience on serial acquisitions than at the time of launching acquisition program 1. Although the same consulting analysis and acquisition strategy that was used in the first program also partly covered this new business, the existing divisional M&A strategy was used to a lesser extent in Program 2 planning. According to Mr. H, the success of the previous acquisition program motivated the Division B management to enter this second acquisition program; "*There was not as much discussion involved before entering Business 2 as before entering Business 1 and the preparation was somewhat poorer. When external consultants have assisted in analyzing growth opportunities as was the case in Program 1, the processes have tended to be more formal*", Mr. H described. Mr. F pointed out the business rationale behind Program 2: "*The Case Company had traditionally operated in a different line of business and it had proved difficult for us to get people from outside the company with these specific skills to serve us. That is one reason why we entered Business 2*."

The first documented references to Program 2 are included in Division B's strategic plan, which was presented in 2004, prior to the first transaction of Program 2. This plan was made for the following four years and it included a written aim to increase the company's net sales by acquiring approximately four companies in the new business. Division B had also mapped its portfolio of competencies where the then-available offering and the offering planned to be available in the near future were divided under strategically important locations. This competence matrix served later on as the most important documentation guiding acquisition program implementation. A mid-term development plan of Division B was presented in 2005 which mostly included the same objectives as the strategic plan of 2004. More specific growth plans were presented in 2008 as a part of a game plan for the Program 2 service sector. The competence matrix was the core essence of all of these presentations and according to the people interviewed, it has been the most important guideline for Program 2.

5.2.2 Acquisition Program Execution Phase

Target identification and selection phase

The targets have mostly been identified by the managers of the local Case Company units. "*In Business 2, many of the leads come from the regional sales directors. Also the middle managers provide leads and cooperating with the local units has also led to leads* ", stated Mr. M. The target selection procedure followed the M&A guidelines set by the division with the same strategic fitness and competence related criteria. The first two acquisitions, AP2-1 and AP2-2 were acquired under Brand B which had not yet been discarded when Program 2 was launched. The original idea was to establish a new brand for Program 2 companies but this idea was discarded when the Case Company made the decision to unify its branding globally. Consequently, Brand B was ceased and the names of the first two acquisitions of Program 2 were changed to associate them with the Case Company. Moreover, the company's Board of Management decided that all the acquired companies would in the future be merged with a local Case Company subsidiary in order to streamline the group's legal structure.

Post-Transaction Phase

Every four months, the managers of the companies acquired in Business 2 held meetings led by Mr. M. The different business lines in the divisions with separate managers were relinquished from the beginning of year 2009. Since then, the communication has continued through different processes indicating that sales people communicate through global sales processes and service people communicate through service processes. The interview archives (Uotila, 2008) and the new empirical findings attested that the companies acquired in Business 2 have communicated and co-operated substantially business-wise. This co-operation has been deemed beneficial, since it has enhanced learning possibilities and integration management. "*Where collaboration has been possible, it has also been very successful*", Mr. M has stated. Unlike the companies acquired under Program 1 the most recently acquired companies in Business 2 have been operationally integrated into the Case Company one by one following the company's normal integration procedures.

5.2.3 Post-Acquisition Program Phase

A game plan of how to proceed in Program 2 was presented in 2008 but before this, very little documentation about the forthcoming acquisitions existed. This game plan included among others a “training and competence development plan” which provides directions for setting up regular product training seminars and developing strong sales support capabilities in the local units. In some cases, there have been problems with organizational restructuring due to cultural and managerial differences between the acquired companies and the Case Company. Especially privately owned and entrepreneur-driven targets have occasionally appeared problematic from the organizational and cultural perspective. Poor management, forcing relocation of facilities and poorly communicated organizational restructuring were the main reasons also for the failure of AP2-2 and resulted in some key people resigning during or after the transaction. Mr. M underlined in the interview how important it is to involve the target’s management and employees in the integration process and to keep the people updated on all the organizational changes.

5.3 Summary of the Acquisition Program Cases

Table 7: The performance of the acquisition programs

	Did total net sales exceed estimates in absolute terms?	Did realized EBIT meet planned EBIT?	Average Economic Spread
Program 1 (2002-2007)	Yes, slightly	Almost	Clearly positive
Program 2 (2005-2007)	Yes, significantly	Almost	Positive

Both acquisition programs have fared well in financial terms in terms of the EBIT figures and the economic spread: EBIT for both programs has almost met expectations and the economic spread has been positive as indicated in Table 7. Acquisition program sales growth has been good and especially in Program 2, the total net sales have clearly exceeded the original estimates. Although the sales synergies failed to meet expectations in half of Program 1 acquisitions and in two out of five Program 2 acquisitions, total sales synergies have exceeded the estimates significantly for both acquisition programs. The formulas for calculating the EBIT and economic spread are presented in Appendix 1.

5.3.1 Acquisition Program Preparation Phase

Program 1 and Program 2 covered very different types of businesses: Business 1, being mainly dominated by entrepreneurial and small family-owned target companies, was more familiar to the Case Company beforehand. Business 2 on the other hand was an entirely unfamiliar area for the Case Company and therefore, acquiring critical business know-how required more effort. Moreover, Business 2 necessitated a deeper technological understanding due to its technological complexity. Mr. G described the business as requiring more "*flexibility, change management and wide knowledge, even if the delivery processes may be the same*".

The generic business strategy of the Case Company served as the first starting point for both acquisition programs. Program 1 emerged as a result of a group-level strategic planning effort and the Case Company invested a lot of time and resources in preparing the acquisition program plan. The consulting company carried out a global market mapping and listed the key players in each region. It appeared that the Division's lack of experience in carrying out acquisition programs was one reason for the planning of Program 1 having been more detailed and profound than that of Program 2 in which the positive experiences of Program 1 created confidence.

The M&A strategy behind Program 1 ensured that Division B had a plan of how to launch the acquisition program before the first transaction took place. The global market mapping and several listed options provided a structured path for implementation and made the acquisitions more planned than acquisitions in Program 2. Despite several shortcomings of the separate branding of Business 1 companies, Brand B may have enabled viewing Program 1 more as a planned acquisition program than what would have otherwise been the case. Whereas the justifications for Program 1 were based on a strategic analysis and a market screening, the justification for Program 2 was a need and an opportunity to grow the business. The confidence in the new program mostly stemmed from the favourable experiences of the acquisitions carried under Program 1. The planning of Program 2 was more or less mental, evoked mainly by Mr. F and Mr. G. Especially Mr. F underlined that defining Business 2 as a new growth area was a strategic decision but it remained somewhat unclear whether this business strategy behind the program was ever documented in any form. Most of the Program 2 planning manifested itself in the competence matrix described earlier. The lack of documentation and modest top-down communication made acquisitions in Program 2 seem like a stream of ad-hoc transactions by the people who had not been involved in the strategic planning. Nonetheless, concluded by the comments of Mr. F, Mr. G and Mr. H, Program 2 has appeared to have become more structured during the recent years. The program preparation phases of both programs are visualized in Figures 11 and 12.

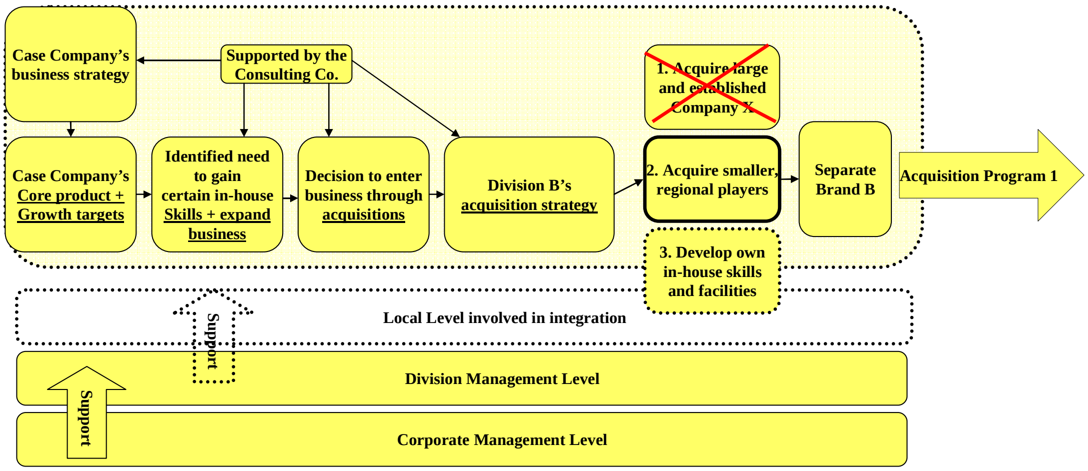

Figure 11: Preparation of Program 1

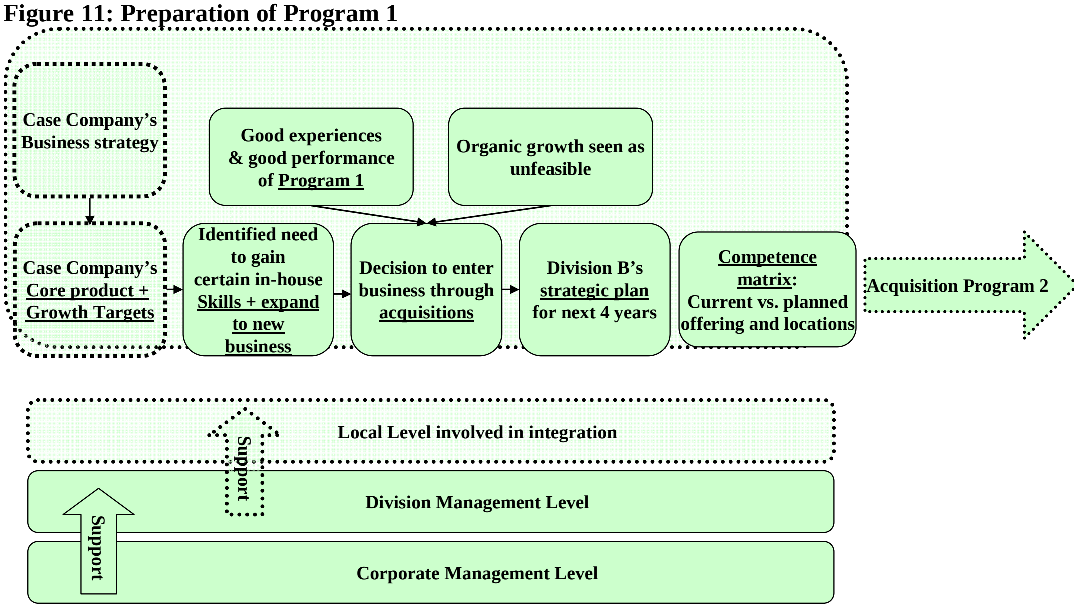

Figure 12: Preparation of Program 2

5.3.2 Acquisition Program Execution Phase

Target Identification and selection phases

Mainly the same people from Division B were in charge of both programs: Mr. F as the head of the division and Mr. G as the program manager. The target identification stages of the programs were different: all the selected targets in Program 1 had originally been identified in the consulting analysis as the best or the second-best options within the particular region whereas the identification sources of Program 2 were mostly local managers or regional sales directors. The target selection criteria were mostly similar in both programs according to Mr. F and Mr. G and the acquisitions were viewed positively from the targets' perspective in most of the cases. The only exceptions were the failed acquisition of AP2-2, where the poorly managed communication and confusing restructurings changed the originally positive attitudes and AP2-4 whose old company owners were hostile towards the Case Company from the very beginning. Most of the acquired companies were small entrepreneurships that were pleased to be acquired by a large and established strategic acquirer as they saw wider possibilities coming along for their business and employees. The importance of the acquisition being a friendly takeover was emphasized in the interviews and would appear to have facilitated the acquisition program management. The target identification and selection phases are visualised in Figures 13 and 14.

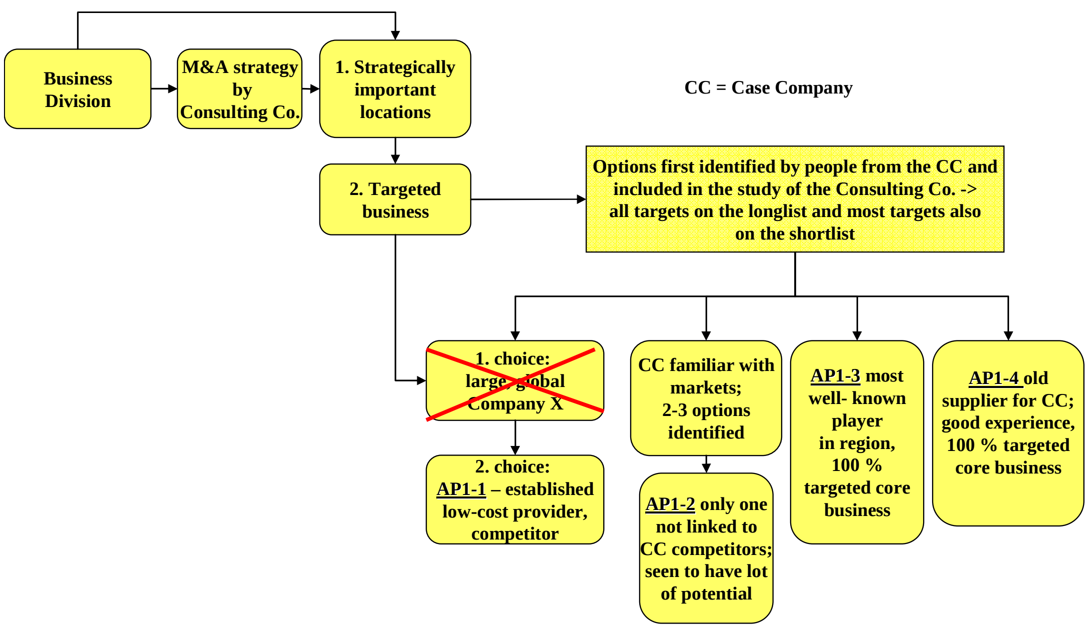

Figure 13: Target identification and selection of Program 1

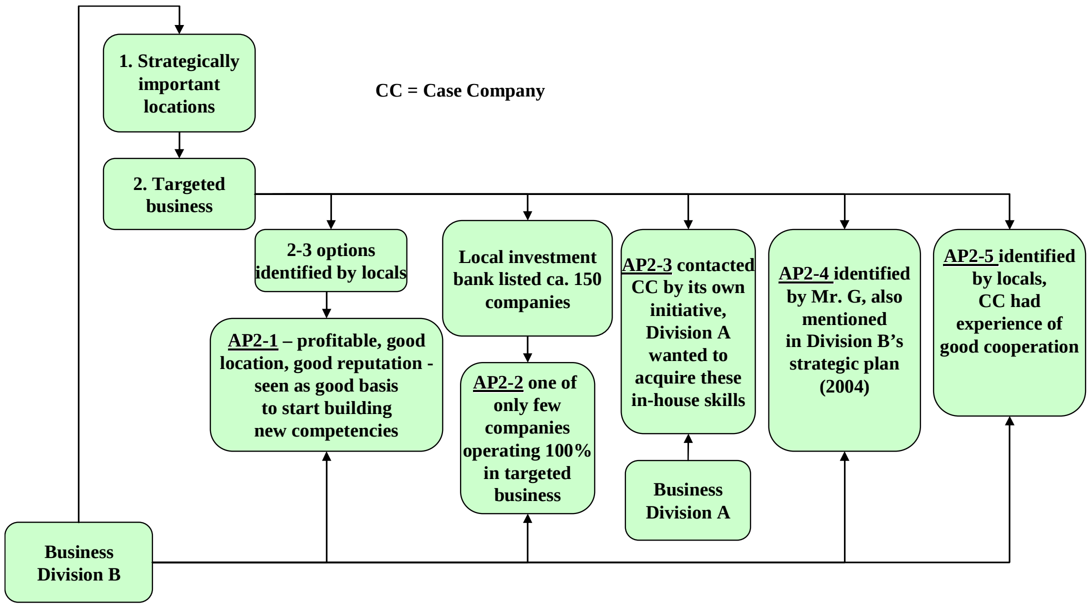

Figure 14: Target identification and selection of Program 2

Post-Transaction Phase

The post-transaction phase of each acquisition is mostly characterised by integration management, which in general was more unsatisfactory for acquisitions in Program 1 acquisitions than in Program 2. Poorly coordinated integration that was delayed for too long manifested itself in unsuccessful management of cross-selling and sales synergies falling short of targets in three out of four cases in Program 1. Cross-selling was not coordinated from the divisional top-level, nor was there anyone specifically in charge of cross-selling: "*Brand B companies were locally present and had regional influence and were marketing the products regionally. So there was no one particular person in charge of cross-selling or marketing of these products globally*." Despite Brand B companies falling short of cross-selling estimates, their post-transaction profitability has been good and the companies have mostly been able to retain the key employees. The abandonment of Brand B and the operational integration to the Case Company that took place during 2006 and 2007 has succeeded relatively well according to the interviewees and the financial measures.

Sales synergies realized in three out of five Program 2 acquisitions indicating that cross-selling was at least moderately successful. The strong support of the Board of Management and the divisional managers was singled out as a major contributor to the successful cross-selling of AP2-1. Since this was the first acquisition in Program 2, this could indicate the Board of Management having a strong motivation to show their high commitment to the acquisition program. The main reasons for the synergy losses of Program 1 companies appeared to have been the separate branding and poor integration management.

Relinquishing Brand B was a rebranding decision made on the group level and does not therefore directly indicate that lessons had been learned from the first program. However, improved top-down communication for companies in Program 2 indicates that at least something had been learned from the first acquisition program. There is nevertheless still some room for development: several cases also in Program 2 have suffered from the global network not fully understanding the reasons for the acquisition or comprehending the target offering. In the post-transaction phase, the involvement of the acquiring local Case Company unit is thereby still inadequate.

There was no integration manager in either one of the programs but Mr. G who served as the program sponsor coordinated integration from the divisional level. As in all individual cases, operational integration has taken place on the local level and mostly by in-house people from the local Case Company units. The target companies' old managers were kept at least for a short period in most acquisitions. In cases where the manager remained motivated this turned out to be a good solution whereas in cases where the manager lost the drive to run the business, the results were expectedly worse. The Case Company was able to retain the key people in most of the acquisitions. The lack of program level differences is partly presupposed since the local managers and the transaction team who had the main impact on retaining the key personnel varied from case to case.

It is difficult to conclude whether actual development from Program 1 to Program 2 has taken place regarding integration management. Although the strong support of the Board of Management facilitated successful cross-selling and integration management for the first Program 2 acquisition, this strong support was not as evident in the succeeding cases: in the latest Program 2 acquisition, integration management has in fact been poor. It would therefore seem like learning from experience has not been very deliberate or continuous but improvements have rather taken place more on an ad hoc basis.

5.3.3 Post-Acquisition Program Phase

Since all the acquisitions in one acquisition program are eventually carried out separately, defining the post-acquisition program phase focuses more on evaluating the entire acquisition program process. Issues such as the level of support provided by the Board of Management, the involvement of the local level, and vertical and horizontal communication were addressed in this post program context. The existence and implementation of a communication plan as well as having general top-level directions for the organizational restructuring were also examined.

The Board of Management and the Division management appear to have been committed to both acquisition programs which were ascertained by their motivation to grow the business and acquire new companies. From the perspective of individual acquisitions, the management commitment was more evident in Program 2 where it was particularly mentioned by the target managers in two cases. Their commitment was seen to fortify cross-selling efforts and enable the target's characteristics and wishes to be taken more into account. The management commitment would appear to have had visible effects only if clearly communicated to the local level. Contrary to the arguments of the divisional management level, the involvement of the Case Company's local level did not turn out to be sufficient since they did not always understand the target's offering or even the reasons for the acquisition. This lack of involvement mainly stemmed from poor communication, especially in Program 1 and resulted in synergy losses. As previously stated, the top-down communication has appeared to have improved to some extent in Program 2.

The question about how much the acquired companies had cooperated during the acquisition program was presented in order to examine how closely the previously acquired targets had been involved in the acquisition program. In both programs, there were regularly held meetings where business- and management-related issues as well as budgets and upcoming action plans were discussed. Mr. G headed the meetings for Brand B companies and Mr. M was in charge of the meetings of Program 2 companies. The communication between targets has appeared to have been relatively active in both cases. The more operational questions about a communications and mobilisation plan and guidelines for organizational restructuring link the programs to individual acquisitions. The communication plan for Program 1 was implemented at a too late stage, after the problems of internal competition and misunderstanding the offering had already occurred. As Program 2 has not been separately branded like Program 1, there have been no similar clear program-level plans.

Issues related to long-term organizational learning were addressed in the post program phase and the following questions among others were contemplated: does the Case Company have M&A learning mechanisms? How does it document and utilize the lessons learned from prior acquisitions? How does it coordinate the acquisition programs in general or take their different characteristics into account? Answers to these questions could not be directly interpreted from the interviews but required a more in-depth analysis.

6 Findings

6.1 Acquisition Program Capabilities in Preparation Phase

The business strategy of the Case Company and its business divisions as well as the M&A strategies of the divisions define the strategically important businesses the company is seeking to expand to or strengthen its position in. The business strategy provides top-level directions for business expansion by setting rough growth targets and the objective of becoming a full-service provider and by encouraging growth through acquisitions. The divisions develop their own M&A strategies based on the business strategy and there lay out their acquisition objectives on a more detailed basis. The main motivations behind both acquisition programs examined in this study were mostly the same as introduced in the business strategy: to achieve growth targets, to expand the business into strategic sectors and to acquire new in-house capabilities. Although the Case Company does not yet have structured processes for acquisition programs, it has program specific acquisition profiles: each program targets a certain business with certain types of companies and with an estimated total number of acquisitions.

The interviewees who had been involved in acquisition planning and transactions viewed the acquisition pace and rhythm to have an impact on performance. A steady pace was regarded optimal even though the exact rate turned out to be difficult to define. The Division’s management level considered it to be in everyone’s best interest to shorten the process lead time whereas the M&A team members estimated a too high speed to have negative impacts on performance. Yet, they also accentuated active acquiring when entering a new business in order to achieve a "critical mass" and establish a foothold in the new area.

The planning process appeared to have been rather short for Program 2 where no proper market studies were performed beforehand. A wider global market analysis could have enabled the Case Company to identify the most attractive businesses from a larger variety than what was now the case. Moreover, Mr. G reckoned that the Case Company should pay more attention to expanding market screening beyond its "natural" or "traditional" scope such as niche markets emerging through its acquisitions. The Case Company had experience of at least one acquired company operating in several businesses of which one niche market unexpectedly turned out to be an attractive expansion option.

The Case Company does not automatically select acquisitions as the only growth method. Strategic alliances, joint ventures, greenfield investments, commercial agreements and licensing are evaluated and pursued when feasible. Acquisitions are yet often selected as they enable faster growth than many other options and because the Case Company is used to this mode. The Case Company does not view different growth modes only as exclusive but rather complementary. Acquisitions were regarded as a feasible option in expanding to the businesses of Program 1 and Program 2 since the objective was to experience a rapid market entry. Within the businesses of Program 1 and Program 2, also complementary greenfield investments have taken place, leveraging the acquired capabilities. Furthermore, gaining credibility especially in Program 2 business required acquiring a critical amount of new skills difficult to obtain by recruiting people. Deduced mainly from the good post-transaction performance acquisitions have not appeared to divert too much attention from the Case Company's core business, the main reason being the well-managed in-house M&A function.

Acquisition Program Capabilities. Some acquisition program capabilities are essential already when developing the business strategy. These key capabilities have been numbered as presented in Figure 16 in chapter seven, "Synthesis". The capabilities from number one to number three are essential already when planning the business strategy and capabilities from number four to six are necessary for planning the M&A strategy. Capabilities from seven to nine are essential in the post-program phase and capabilities from ten to twelve are related to executing the acquisition program but are additionally important to possess throughout the entire acquisition program process.

The capability to select markets with high profit potential and the capability to understand own resources to compete in these markets **(1)** are the first capabilities the acquirer needs in order to evaluate which business segments to expand to. A market analysis which among others included an evaluation of the Case Company's existing competences and the competence gap it aimed to fill, provided groundings for expanding to Program 1 business, which turned out to be profitable. Program 2 proved to be a profitable business as well despite the less comprehensive market analysis. A broader market analysis could yet have provided a better insight into all the options available in the business and helped to develop a structured M&A strategy.

The target availability in Business 2 turned out relatively poor in one of the strategically important regions. Partly due to the lack of suitable targets and due to the recommendations of a local investment bank, the Case Company decided to acquire AP2-2. Although poor integration management was the main reason for AP2-2 failing as an acquisition, the lack of suitable targets in this region seems to have lowered the selection criteria. The poor target availability should have motivated the Case Company to further consider other options such as greenfield investments in this specific region. Even a serial acquirer should be able to evaluate and select the suitable growth mode already when developing its business strategy and determine when M&A is the preferable method to expand business and when another option would be preferable **(2)**.

Developing the M&A strategy initiates the acquisition program preparation phase. The M&A strategy should provide directions and criteria for target screening. The case study highlights target identification **(4)** and target selection capabilities **(5)** when developing and implementing the M&A strategy. Target identification capability refers to the acquirer's ability to evoke an active lead stream and target selection capability stands for setting clear selection criteria and conducting a selection process that ensures the high quality of the acquired companies. The case study findings support the importance of the identification capability: the Case Company's divisions encourage different organizational levels to actively search for new leads thereby evoking a high lead flow. Utilizing all possible sources for identification increases the possibilities to identify attractive targets and has resulted in several successful acquisitions. After having generated a high lead flow, the acquirer should define the selection criteria and later on, also adhere to these parameters. The target selection capability is important for performing individual acquisitions but as a program-level capability, it is even more demanding: instead of selecting only one target at a time, an active serial acquirer should be able to simultaneously select several targets that meet the criteria and together reach the objectives of the program. This requires that the acquirer allocates some program-level resources already when planning the M&A strategy and the acquisition program. Although the Case Company has experience of pursuing several deals at the same time, it should yet further activate target screening by allocating dedicated resources for the acquisition programs. Designated program-level resources would enable the Case Company to pursue multiple acquisition programs coincidently.

Target identification and selection capabilities lead to a sixth capability important for a serial acquirer: the capability to develop acquisition profiles **(6)**. The importance of an acquisition profile is supported by literature findings (Albizzatti and Sias, 2004) and further endorsed by the case study. A clear acquisition profile defined by the number and type of deals fortifies the implementation of the M&A strategy. Moreover, if this profile is fairly communicated it may intensify acquiring as suggested by the empirical findings: since the Case Company is a known serial acquirer pursuing certain types of deals, one source of lead identification are business owners who offer to sell their businesses to the Case Company on their own initiative. Furthermore, this clear acquisition profile enables the Case Company's own employees to search for the "right" type of leads.

Finally, the acquirer should understand the value creation potential through the acquisition program **(3)**. The acquirer should analyze whether the "as is" profits added with the standalone improvements and synergies exceed the costs including the purchase price, the transaction costs and the risks: are the costs of entering the business on the correct level or is the business over- or undervalued? The acquirer should in other words estimate whether the profits from entering the acquisition program are likely to exceed the costs and whether there are enough achievable synergies in the business. Understanding the value creation potential is linked to selecting the optimal growth mode: if entering a business through an acquisition program seems to be value destructing, another growth mode may be worth considering.

6.2 Acquisition Program Capabilities in Execution Phase

The Case Company's M&A process for individual acquisitions is well-established and coordinated. However, the company still has only a little experience of implementing acquisition programs. This inexperience became most evident in the two case programs appearing as real acquisition programs only for the people who had been involved in the strategic planning. Most interviewees apart from the Board of Management or the Division B management regarded the acquisitions merely as individual ad hoc transactions that had been carried out in two businesses. Having an M&A strategy in place for Program 2 before the first transactions would have made the acquisitions more strategic and an improved top-down communication would have better affiliated the transactions to the acquisition programs.

The target-to-acquirer integration is somewhat shorter and more flexible for smaller companies and slower for larger companies. Most interviewees yet saw a need to make the integration more flexible for private, family-owned entrepreneurial firms and larger corporations. The empirical findings revealed that in some cases these differences in company sizes and company types have not been taken sufficiently into account, which has led to some organizational and cultural problems.

The target-to-target integration has mainly taken place through management teams and communication forums that were established for both programs. The acquired companies in both programs operated in the same business, which facilitated the integration. Program 2 involved additional integration challenges as in addition to target-to-acquirer and target-to-target integration the Case Company had to integrate an entirely new business into its existing business. This integration was first carried out by establishing a new business category with separate communication channels and management forums. After the Case Company decided to relinquish the separate business lines at the turn of the year, communication and cooperation has successfully continued through different processes.

Acquisition Program Capabilities. In the program execution phase some M&A capabilities are relevant for individual acquisitions and for acquisition programs. As the focus of this study is on the 3rd and 4th level capabilities of the Acquisition Capability Framework, the capabilities to manage acquisition programs and the capabilities to develop these acquisition program capabilities, managing an individual acquisition from the negotiations to closing will not be addressed in detail.

Most program-level capabilities that emerged through the case studies are an integral part of the execution phase but are also important during other stages. The most distinctive example of a capability that cannot be allocated to one single stage is the capability to develop and carry out the acquisition program deliberately **(10)**. This capability is strongly supported also by literature: Chatterjee et al. (2002) and Albizzatti and Sias (2004) among others underline the importance of a well-defined acquisition program process, dedicated program-level resources and strict parameters for target screening and selection. Several studies accentuate that strategic acquirers with clear directions for target screening outperform occasional acquirers, which further supports the capability. The empirical findings support the importance of management commitment in deliberately managing an acquisition program: the strong support of either the Board of Management or the Division management was especially mentioned in a few individual acquisitions where it was seen to have motivated the local managers and thereby improved the post-transaction performance. Had this commitment been better communicated also for the rest of the acquisitions in both programs, the positive impacts would likely have been more extensive. The support of the managers manifested itself now more case-by-case on an ad hoc –basis than through expedient planning.

The importance of the integration management capability **(11)** is supported by literature and the case study. The case study shows that poor integration management of the first individual acquisitions and the late operational integration of all Program 1 companies resulted in synergy losses. Introducing the structured integration concept in 2006 has ensured that the administrative integration of acquired companies has gone well since. The case study and literature findings support dividing integration management into three levels: the target-to-acquirer integration, target-to-target integration and program-level integration. The capability to manage target-to-acquirer integration is an important capability also for individual acquisitions. Target-to-target integration capability indicates integrating the acquired businesses and their facilities into each other while establishing a communication channel for the acquired companies. Program-level integration capability refers to integrating the newly acquired business into the rest of the acquirer's existing business and may prove to be challenging especially if the acquirer is targeting a new and previously unfamiliar business. The integration capability covers all different stages of the process with somewhat varying emphasis: the importance of target-to-acquirer and target-to-target integration capability is especially high in program execution phase whereas the capability to manage program-level integration is particularly salient during post-program management.

6.3 Acquisition Program Capabilities in Post-Program Phase

The most important issue in the post-acquisition program phase is to gather all the lessons learned from the previous acquisitions and acquisition programs in order to further develop M&A capabilities. In the case study, the questions asked in the post-program phase were related to the managers' level of commitment and the involvement of the local level. The questions were asked in order to find out whether there had been significant differences between the programs. All the interviewees were additionally asked several learning-related questions such as whether they had come up with any kinds of 'mental guidelines' or 'rules of thumb' that they followed in each acquisition.

The M&A team was satisfied with the level of support provided by the company Board of Management and the Division management teams. Only a few of the interviewees replied having so called mental rules of thumb to follow in acquisitions. Most interviewees yet appeared to reflect on some specific thoughts during every acquisition process. Mr. B for example originally argued that no certain rules can be applied for every acquisition since each case is different. Yet he referred to a 'certain gut feeling' that emerges though experience: "*Quite fast you are able to come up with the certain feeling about which companies to trust. You are able to sense the general atmosphere around the business deal. It is impossible to generalize. -- Occasionally you have to rely on your gut feeling – for example, whether the price should be increased or not ….*"
All the interviewees viewed the M&A team bringing important professionalism into acquisition processes. They viewed that people in general have very little experience of acquisitions. Mr. G reckoned that the Case Company as an acquirer could also learn

more from the acquired companies through careful examination and documentation. Unlearning from experience was reflected in the negative acquisition experiences: Mr. B mentioned that he had learned that no company can be forced to sell at a certain price and that the acquisitions where the seller has sold the company willingly have in general performed well. He also underlined how large of an impact the person selling the business has on the acquisition process flow.

The M&A function, the manuals and guidelines for the M&A processes, the screening checklists and synergy templates for each potential target prove that over the years, some M&A capability development has taken place in the Case Company. However, follow-up on individual acquisitions was infrequent prior to 2008 (Uotila,, 2008). There have been no coordinated or documented follow-ups of the two acquisition programs on a program level prior to the thesis: instead, most evaluations have been in an intangible form in the minds of the few key individuals involved in both acquisition programs, Mr. G and Mr. F. The original plan for Program 2 was not documented until having performed a majority of the acquisitions and the key competence matrix presented in 2004 still serves as the major guideline for Program 2.

Mr. G described that the Case Company uses a so called “learning-by-doing” –approach indicating that there is always a more experienced acquirer giving advice to newcomers. Transferring knowledge from one person to another was in general regarded as a rather simple procedure. The divisional management level viewed that there are currently well-established communication channels inside the business divisions for exchanging information about e.g. new acquisition leads. However, the cross-divisional discussions regarding attractive acquisition targets still take place more informally.

Acquisition Program Capabilities. Most of the acquisition program capabilities in the post program phase are so called higher order capabilities: learning from experience and developing M&A capabilities. These capabilities are relevant throughout the whole acquisition program but have a special emphasis after one program has been implemented and the next one is being planned. The capability to deliberately develop M&A capabilities **(8)** requires the capability to learn and unlearn from experience. It is an essential capability for an acquirer to improve its competence in long-term acquisition program management. This higher-level M&A capability includes the capability to recognise the market dynamics and industrial differences in developing the program-level M&A capabilities: the acquirer should acknowledge that the same standardized M&A model is not applicable in all situations and environments but depends on issues such as market competitiveness and industry fragmentation **(9).**

The final capability emerging in the post program phase is the capability to capture all the value generated through the program **(7).** Value realization refers to financial and non-financial measures: the Case Company could not for example retain the target's key personnel in each case, which led to financial losses and even lost business opportunities. The occasionally poorly managed integration and cross-selling also hampered the post-transaction performance, indicating that the Case Company was not able to capture all the potential value in each acquisition.

As stated, the Case Company has not yet had many opportunities to learn from the acquisition program perspective. However, program-level M&A capability development can take place continuously if there are suitable learning mechanisms in place. Although the interviewees stated that Program 1 served as one kind of a starting point for Program 2, no real post-Program 1 –evaluation had been carried out before starting the second program. Therefore, the actual failures and success factors of the first acquisition program were not really utilized or learned from. In order to enhance true M&A capability development, the Case Company should focus on deliberately developing program-level capabilities. Establishing mechanisms for interpreting and codifying the lessons learned from both acquisition programs would enable it to develop the capabilities for the upcoming acquisition programs.

Figure 15 visualizes the progress of the study.

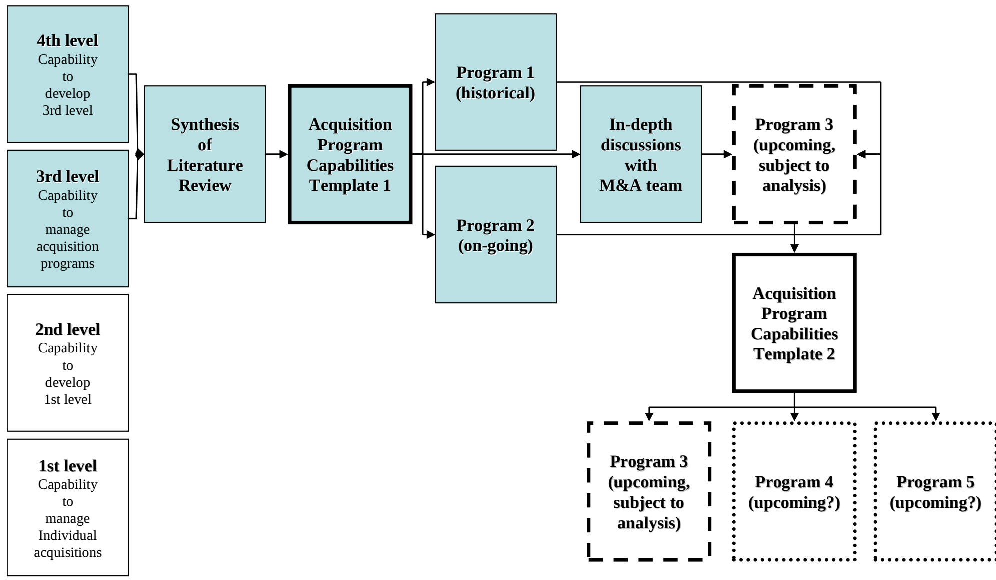

Figure 15: Progress of the study

7 Synthesis

This chapter presents the synthesis of the main empirical findings and highlights some relevant conclusions from the literature. The chapter aims to provide answers to the research question, *"How to develop the acquisition capabilities to a level which enables effective execution of acquisition programs?"* This chapter also addresses the sub-questions set in the beginning of the thesis about formulating a process description of acquisition program management.

The slides in Appendix 3 present some examples of how the acquisition program capabilities were allocated to the different stages of the acquisition program process. Slide 1 describes the acquisition program process in general whereas slide 2 provides examples of analyses to be carried out when evaluating the feasibility of expanding to the business through an acquisition program. Slide 3 provides an example of analyses to be performed and issues to address when developing the prioritization criteria for acquisition targets and slide 4 exemplifies the capability descriptions. The process description of the acquisition program will be further addressed in chapter 8, as a part of the recommendations for the Case Company.

7.1 Acquisition Program Capabilities Template 2

The outcome of the study is the second and final acquisition program capability template, which provides recommendations for how to manage an acquisition program. Acquisition Program Capabilities Template 2 is visualized in Figure 16. This final template is based on literature and empirical findings ranging from the case study interviews to in-depth discussions with the M&A team and especially with the head of the M&A team, Mr. H. This template differs from the first template for its high practical relevance. The template has been developed together with people from the M&A team who are currently exploring a market the Case Company seeks to expand to in the near future. The objective has been to concretize the original templates as much as possible in order for it to be applicable in practice. The M&A team has provided valuable input in the concretization process based on their know-how and experience. Many originally proposed analyses have been eliminated from the final template due to the too limited amount of information available at that stage. Only the analyses that were seen to add value and that were regarded executable have been retained.

The capability to develop and implement an industry-adjustable M&A strategy was revised into the capability to develop and carry out an acquisition program deliberately. The empirical findings supported the importance of an M&A strategy but also proved that the strategy is only one part of successfully managing an acquisition program. This M&A strategy needs to be well managed, which is better reflected in the capability of deliberately carrying out the acquisition program. The first template presented the capability to acquire optimally-sized, strategically, organizationally and culturally fit targets. The strategic fit turned out to be an important target selection criterion. However, due to the limited information available in the target selection phase, the capability to select organizationally or culturally fit targets was deemed inapplicable yet at this stage. The organizational and cultural fitness rather appeared to have more relevance when integrating the acquired company into the acquirer's organization,

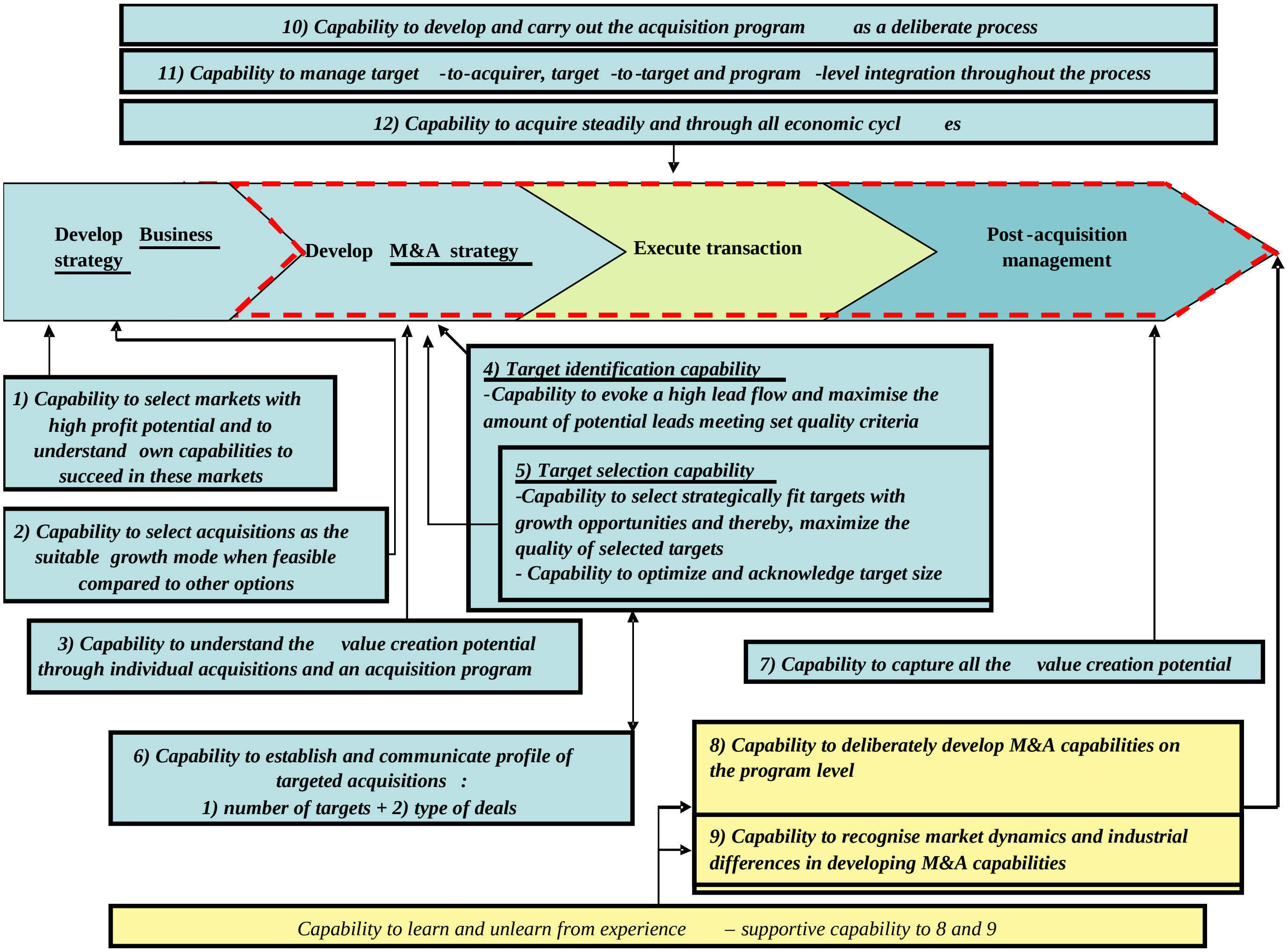

Figure 16: Acquisition Program Capabilities Template 2

whereas the strategic fitness and the growth opportunities emerged as the most important features in target selection through the case study. Activating different organizational levels and channels to search for potential targets had significant relevance for the Case Company: the divisions' management level encouraging the regional sales managers to search for new leads and to further encourage their own subordinates to find new targets appeared to be a key success factor for active acquiring. The capability to evoke a high lead flow was therefore recognized as a program-level key capability and described as the target identification capability. The target identification and selection capabilities led to another important capability for a strategic serial acquirer, recognized as the capability of establishing and communicating an acquisition profile. An acquisition profile can be defined for example by the acquisition rate and the type of deals carried out. Its high resonance in managing a stream of acquisitions has been highlighted in M&A literature and was further supported by the case study as well. An acquisition profile ensures that acquiring is goal-oriented and supports the acquirer's business strategy. It is especially important to define what type of acquisitions the acquirer targets since it ascertains that acquiring is strategic and not only defined by ad hoc actions.

Understanding the existence of other growth modes in addition to acquisitions proved important even for an active serial acquirer. The Case Company was present in countries where the only method to credibly enter a new business was to acquire a local player. It was also present in locations where legal restrictions made entering a certain business more feasible through a strategic partnership than through acquisitions. In case of a newly targeted business being concentrated in countries with strict legal restrictions and regulations, an acquisition program would most likely not be the optimal growth mode. The capability to select acquisitions as the suitable growth mode therefore emerged as a new key acquisition program capability outstandingly important when planning the M&A strategy.

After having selected acquisitions as the suitable growth mode, evaluating the long-term profitability of entering the business through an acquisition program emerged as the next key capability. In Acquisition Program Capabilities Template 2, the capability to target profitable markets was concretized by a set of relevant analyses of whether the profits achievable through the acquisition program were estimated to exceed the costs.

The capability to capture all this potential value by realizing the estimated synergies seemed to be mostly related to successful post-acquisition program management and well-managed integration.

The capability to learn and unlearn from experience was set within a broader program-level context of developing M&A capabilities. Furthermore, recognizing market dynamics and industrial differences in capability development was identified as a separate learning-related capability partly based on empirical findings and partly on further literature research. The capability to optimize the acquisition program scope including the acquirer-to-target and target-to-target relatedness was on the other hand left out of the second capabilities template for several reasons. Firstly, it turned out to be challenging to measure this level of relatedness. Secondly, no relevant conclusions could have been drawn on the basis of only two case programs. Thirdly, the Case Company defined both of the acquisition programs in terms of the targeted business, which implied a high target-to-target relatedness for both programs. No valuable comparisons between the programs could therefore have been made. Fourthly, both targeted businesses were highly related to the Case Company's existing core business and in all likelihood, no significant sorting could have been made in this sense either. The business relatedness was seen to play a more significant role in the integration phase and to be reflected in the target-to-acquirer, target-to-target and program-level integration capability.

Assigning organizational resources for the acquisition program turned out to be an essential part of the capability to deliberately develop and carry out an acquisition program. Without allocating resources already in the planning phase and without gradually increasing these resources as the program evolves, there is a high likelihood that the program does not turn out coordinated and suffers from the lack of management. Furthermore, it is important to have checkpoints and post-mortem reviews for the acquisition program as well instead of only for singe transactions.

The capability to acquire steadily and throughout all economic cycles is introduced as a part of the Template 2 due to the strong support in literature. It implies that acquisitions should be carried out at a steady rate and with a small variance in the acquisition rate. The steady rate should be maintained throughout all economic cycles including economic slowdowns when it is likely that under priced targets are for sale and there is only little competition among acquirers (Hayward, 2002).

<u>Capability to Select Markets with High Profit Potential while Understanding Own Capabilities to Succeed in These Markets:</u> The capability to select markets with high profit potential while also understanding own capabilities to succeed in those markets is a two-folded capability. It consists of the capability to identify and select markets with high profit potential and the capability to understand own capabilities to operate successfully in these markets. The acquirer needs the capability already when planning the business strategy and when developing the strategy for the acquisition program. The company needs to be capable of addressing markets with true growth opportunities and value creation potential and analy<e the industry landscape to find the greatest sustainable potential for long-term value creation (Cools et al, 2007). Therefore, before entering any markets by acquiring, the level of returns available in that particular market should be carefully evaluated. Attractive markets with a high profit potential and growth opportunities should act as a starting point for every company's business strategy. The market analyses performed when developing the business strategy should also cater for the acquisition program planning. The company should among others be conscious of its main competitors in the markets and the level of industry fragmentation because fragmentation can provide consolidation opportunities and thus, accelerated growth. However, it is not sufficient only to know which markets offer growth opportunities but also to understand, whether own capabilities and resources make it possible to compete successfully in these markets. When making the selection of which business to expand to through an acquisition program, the company should further confirm that the relevant market analyses have been carried out and are up-to-date.

The Case Company has identified the attractive markets as a part of its business strategy. However, this business strategy is usually rather generic, since the business divisions themselves determine where they wish to expand to. Therefore, the divisions should carry out market analyses before entering an acquisition program. The capability to select growth markets is important for a long-term success: markets that may appear profitable at the time of entering the business may turn out unprofitable in the long-run. The opportunity costs of entering a certain market should be carefully evaluated and questions such as whether another market could provide a better ground for business and growth should be presented. Before selecting markets, the acquirer should evaluate issues such as the country market potential, competitiveness of the market and the most severe risks. The acquirer should examine the market shares and sizes of companies active in that business as well as the average profitability of the business. Furthermore, it should evaluate its own competences against the requirements of the targeted business. If this self-assessment proves that it does not possess enough resources or capabilities to succeed, even attractive markets should be omitted.

Capability to Select Acquisitions as The Suitable Growth Mode when Feasible Compared to Other Options: The capability to select the suitable growth mode indicates that the company is able to make a rough comparison of alternative growth modes even with a little amount of data available. The growth modes for expanding to a new business include licensing, franchising, contractual agreements, joint ventures, acquisitions and greenfield investments. The company should have an idea of the suitable growth mode already when developing its business strategy. Existing research suggests that mergers and acquisitions should be regarded as a tool among others instead of a strategy to grow as such. Research also states that allocating too much managerial resources on searching for new targets diverts attention from the core business. On the other hand, there are also recent studies supporting acquisition-driven growth strategies. Research by e.g. the Boston Consulting Group (Cools et al., 2004), which studied over 700 large public US companies, demonstrates that contrary to academic opinion, acquisitive growth strategies create superior shareholder returns. Capron and Anand (2007) reckon that the company should always be able to reflect on other options in addition to acquiring, such as alliances, joint ventures or simply hiring new employees. Barkema and Vermeulen (2001) who focused on studying the differences between acquisitions and greenfield investments, found that continuously exploiting a firm's knowledge base through greenfield investments eventually causes the organization to become simple and inert. Using only greenfield investments results in the acquirer being unprepared for environmental changes likely to occur at least in a long-term perspective.

The Case Company has a clear focus on rapid growth and business expansion not achievable only organically. The company regards M&A a necessary tool in addition to organic growth and other growth modes in order to achieve the ambitious growth targets, since acquisitions broaden the firm's knowledge base and foster development of new know-how. The focus on acquisitions manifests itself in the form of a highly standardized M&A function. M&A can be seen to somewhat dominate the Case Company's growth mode selections although other growth modes are evaluated and chosen if they clearly seem more feasible. Consistent with the research findings, some of the M&A team members yet emphasized that laying too much attention on target screening may hamper core business and acquisitions should therefore not be regarded as an end in itself.

Target Identification Capability: Target identification capability refers to the acquirer's target screening abilities. It indicates the acquirer's ability to evoke an active stream of various leads that fit into a certain, at this point still loosely defined framework. The capability first emerges while developing the business plan and analyzing business options. The acquirer gets a general picture of the markets, industry landscape and its main competitors. Target identification capability continues to play an important role in the M&A strategy planning where the attractive businesses are further examined. It ends when target selection phase begins. The target identification stage is challenging due to the very little information available. The Case Company's Board of Management and the division management encourage employees on all organizational levels to actively search for new potential targets. This ensures a high lead flow and the utilization of different identification sources. Especially employees from the Case Company's local units with the most hands-on knowledge are strongly encouraged to search for targets. This encouragement is only verbal, no direct financial incentives are provided. However, growth targets may be a part of the management bonus targets. Occasionally also external sources such as bankers and consultants are used as additional channels. The Case Company therefore possesses a developed and active target identification capability. The capability to forge a continuous lead stream is of great importance in order to increase the possibilities of financially and strategically sound target selections. In the target identification phase, the most important issue is to be able to generate a high lead flow and utilize many alternative lead identification sources. The quality of leads should be paid as much attention as possible but due to the very limited information available at this stage, keeping very high quality standards may be difficult. The quality aspects should therefore be underlined more in the selection phase.

Target Selection Capability: The target selection capability is one of the most concrete M&A capabilities and it consists of two so called sub-capabilities: the capability to select strategically fit targets with growth opportunities and the capability to optimize and acknowledge the target sizes. The capability to select strategically fit targets means that the acquirer is able to select companies that complement and bring value for the acquirer and are in line with its business strategy. Maximizing the quality of selected targets means that these targets also have clear potential for further growth. The capability to optimize and acknowledge the target sizes means that the acquirer is able to take the relative sizes of the targets into account in the selections. The capability first emerges in the M&A planning phase after the target identification capability and links the M&A planning phase with the program execution phase. The selection capability is important until closing the last deal. There are somewhat inconsistent findings on whether the acquirer should rather target well-performing or poorly performing companies. However, there is a consensus of aspiring after targets with clear growth opportunities. Even a profitable target with no potential to grow in the future will provide only little long-term value for the acquirer. The relative target size has an impact on acquisition performance and is therefore an important feature to take into account. The Case Company uses the strategic fit of the targets as the primary identification and selection criteria and therefore, the problems that emerged during acquisition processes were rarely caused by a poor strategic selection. In the target screening of both acquisition programs, there were mainly the same people involved which may have provided some additional value and made the selection process more coordinated. The Case Company aims to focus on companies large enough for it to establish a firm foothold in the targeted business. However, since some of the businesses the Case Company has expanded to are very fragmented and dominated by smaller players such as Business 2, it has also acquired smaller targets that have yet on average contributed to its business growth.

Whereas the capability to generate a high flow of potential leads was the main priority in the target identification stage, the target selection stage should focus more on the quality aspects. Quality maximization can only take place with selecting targets that complement the acquirer’s strategy and can also be stimulated for further growth. The capability to select optimally-sized targets is important as well, since relatively too small acquisitions only take up resources without providing sufficiently shareholder value whereas too large targets may even harm the acquirer's performance and are often difficult to integrate.

Capability to Establish and Communicate Profile of Targeted Acquisitions: Number of Targets and Type of Deals: The capability consists of the capability to define how many targets the acquirer will seek to acquire during a set timeline and the capability to define what kinds of deals it will pursue: will it acquire new in-house skills, seek to expand geographically or acquire competitors as pre-emptive moves? Creating an acquisition profile is the first step in evaluating what kind of a profile the acquirer fits into since profiles require different organizational skills, processes and tools. As a large acquirer, the Case Company's business divisions had different acquisition profiles due to their different business targets. A well-known acquisition profile activates the lead flow, since the companies that are selling their operations are aware of what types of acquisitions the acquirer is seeking for and can evaluate whether their business suits this strategy. A clear acquisition profile has facilitated target screening for the Case Company. Most targets are also positive towards being acquired by a strategic acquirer with M&A experience and well-established M&A processes such as the Case Company. The capability to develop an acquisition profile is important for an active serial acquirer: it reduces the time and resources invested in target screening and offers wider opportunities for the acquirer. An acquisition profile that has been consciously planned and developed also makes acquiring more strategic and prevents so called ad-hoc acquisitions from taking place.

Capability to Understand The Value Creation Potential Through Individual Acquisitions and The Acquisition Program: The value creation consists of value created through individual acquisitions and by the acquisition program. The capability to understand how much value can be created through an acquisition program requires the company to analyze all the potential profits and costs that are likely to occur through the acquisition program, and whether it is in general feasible to expand to the business through an acquisition program. The Case Company slightly overestimated the profitability of the acquired companies and did not expect there to be a dip in performance and sales one year after each transaction. However, the sales of the acquired companies clearly exceeded the estimates in total, resulting in the Case Company actually underestimating the achievable value creation through the acquisition programs. The failure to meet the estimated profitability levels appeared to be more related to poor integration management and the lack of coordinated cross-selling. Furthermore, the cost synergies were systematically overestimated. The reason for overestimating the cost synergies was most likely the managers focusing more on pursuing revenue growth than on cutting costs. It would therefore appear that the cost synergy expectations were unrealistic from the start, especially since operations and facilities were in many cases left detached on purpose: the divisions assumed to be capable of achieving cost synergies without concrete actions.

The capability to understand how much value can actually be created through the acquisition program is important in order to have realistic expectations about what can actually be achieved through the program. It also ensures that the acquire carries out proper market analyses and financial evaluations prior to launching the acquisition program, thereby having a realistic understanding of the opportunities available.

Capability to Capture All The Value Creation Potential: It is not enough to understand the value creation potential of the business but the acquirer must also be able to capture this value. In addition to financial value, there is also a more qualitative aspect of value creation potential that can be achieved through acquisition programs such as the skills and know-how residing in individuals. This qualitative aspect can be exemplified with the Case Company not being able to retain all the key personnel in every acquisition. Another example of qualitative value creation potential are lessons that can be learned from the acquired businesses: acquisitions may add value by teaching the existing organization new working method or even lead to an entirely new line of business as was the case with one of the Case Company's acquisitions,.

The sales of the companies acquired by the Case Company clearly exceeded expectations but the loss of these key employees signal that there would have been even more value to capture through the acquisition programs. There should be established learning mechanisms for transferring information between the Case Company and the targets: careful examination and documentation may lead to entirely new value sources that have not been recognised in the acquisition.

The interviewees reckon that a better exchange of information between the business divisions would enable them to learn from each other and thereby gain more value throughout the organization. Despite operating in different businesses, the divisions may for example occasionally come across leads that could interest other divisions. Better cross-divisional communication could therefore avoid futile and overlapping work in target screening and facilitate the capturing of all the potential value.

Capability to Develop and Carry Out The Acquisition Program as A Deliberate Process: The capability to develop and carry out the program as a deliberate process is perhaps one of the most essential M&A capabilities. An acquirer that possesses this capability has an M&A strategy in place and is able to carry out individual acquisitions as a part of the acquisition program instead of only as separate ad hoc transactions. An acquirer possessing this capability acknowledges that an emergent stream of acquisitions, even if carried out within a limited time frame, does not automatically create an acquisition program. The process must be deliberate and carefully managed. As described in the case study, the Case Company had clearer plans for Program 1 than for Program 2. However, over the time, Program 2 has also become more structured and coordinated. The fact that the same few people, Mr. F and Mr. G, were leading both programs is highly likely to have facilitated program coordination.

The first precondition for the capability to deliberately manage a stream of acquisitions is therefore an established M&A strategy. The second precondition is that there are dedicated organizational resources for the acquisition program. The amount of dedicated resources should be gradually increased as the program evolves and more targets have been acquired. Additionally, there should be an acquisition program plan consistent with the M&A strategy. The acquisition program plan should be developed before target screening takes place and before any transactions have been carried out. In order for the acquisition program to have a clear framework, there should be business-related requirements about issues such as geographic locations, targeted business segments and target customers. There should be rough financial requirements for the acquisition program as well as a set timeline. A clearly established process for implementing the acquisition program ensures that acquisitions are strategic and that the acquisition program has a well designed thread.

Capability to Manage Target-to-Acquirer, Target-to-Target and Program-Level Integration Throughout The Process: The capability to manage M&A integration can be divided into three levels: the capability to integrate individual acquisitions into the existing organization similarly as when targeting individual companies, the capability to integrate the acquired companies operating in the same business into one another and the capability to manage the program level integration. Program level integration stands for the acquirer expanding to a new business through the acquisition program and being able to integrate this new business into the rest of its existing business and organization. The capabilities to manage target-to-target and program level integration are predominantly program-related M&A capabilities whereas also a single acquirer needs the capability to manage target-to-acquirer integration.

Since introducing the systematic integration concept in 2006, the Case Company has had a well-planned and coordinated integration process guided by milestones and checklists. Operational integration is mostly carried out on the local level, which has been regarded as a good choice due to the locals having the best understanding of the local conditions. However, the Division management and the M&A team had slightly different views regarding the optimal integration speed: whereas the division's management seemed to monitor integration mostly in terms of numerical milestones such as the '100 days' –rule, people involved in the transaction viewed integration more from the 'executive ground-level'. They considered that instead of strictly applying the "100 days" rule, more focus should on the target company during the integration process. On the other hand, the management level also seemed to understand that integrating larger targets such as the company AP2-4 was a more arduous process and therefore required a slower integration speed. The local managers of AP2-4 deemed the slower integration speed to be among the main reasons for a good post-transaction performance. The flexibility of the integration process is also reflected in the action plan and milestones, which somewhat differ based on the type and size of the target.

Managerial integration had not always turned out successful in the Case Company. Some interviewees reckoned that the divisions should be more proactive if the old owner or managing director turned out incapable of working as part of the new organization or did not maintain the necessary motivation. In case any friction occurred between the old manager and the new owner, it was considered important to react immediately. "*Once friction has emerged, it has never truly disappeared even during the course of time*", Mr. G described. The main reasons for friction appear to lie in the different organizational cultures: unlike the Case Company, the targets tend to be tightly run entrepreneurships where the old manager is not used to working in a large company. Therefore, transferring the manager to become a part of a new larger company is rarely a straight-forward process and requires special focus.

The Case Company has communication channels for the acquired targets indicating that some target-to-target integration has taken place. However, the lack of a program level integration manager and particularly in these examined cases, the lack of a program level cross-selling manager may have been partial reasons for the integration and cross-selling problems. The findings from the case study imply that the degree of optimal integration is somewhat case-dependent and integration management of an acquisition program is more complex than integrating a mere individual company. Integration speed represents one challenge since it needs to be considered on all the three different integration levels. The case study proved that even for individual acquisitions, a slower integration speed is sometimes more preferable. Target-to-target integration takes place at the same time as individual acquisitions are integrated into the acquirer's organization. Therefore, the target-to-target integration speed is highly dependent on the speed of integrating individual acquisitions.

It is important to have at least high-level plans of how to manage integration on all three levels even when the feasibility of the whole acquisition program may not yet be defined. As predicted in the beginning of the study, integration management emerged as an important M&A capability. However, the capability to integrate single companies and the capability to integrate a whole new business are different issues. Whereas the first one is a basic capability that every company performing M&A should possess, the latter one requires more coordination from the acquirer as well as the ability to manage a broader entity.

Capability to Deliberately Develop M&A Capabilities on The Program-level: The capability to develop M&A capabilities purposefully on the program-level signifies that the acquirer is willing to monitor its past experiences about carrying out acquisition programs in order to improve its processes and M&A capabilities in the future. The capability requires the acquirer to have suitable and well documented learning mechanisms. The starting point for the capability is to distinguish between ad hoc problem solving and dynamic capabilities. Unlike ad hoc problem solving, dynamic capabilities are conscious efforts to constantly develop the underlying processes and mechanisms by adapting to the changing environments. Dynamic capabilities enhance learning and development whereas simple ad hoc problem solving does very little in this sense. The Case Company had mechanisms for learning from individual acquisitions, which mostly appeared through updating M&A process descriptions and by people with M&A experience sharing their know-how and learning with each other. However, since only a few pilot acquisition programs had been carried out, there had not yet been many opportunities to learn on the program-level.

The capability to deliberately develop M&A capabilities on the program-level as well as the capability to learn and unlearn from experience are essential for a serial acquirer seeking to improve its performance in the long-run. A bottleneck for developing acquisition capabilities tends to be related to the limited skills of the key people. In case the key people are unable to understand the importance of developing acquisition capabilities or even if they do have the necessary understanding but do not know how to apply this knowledge, it stalls the acquisition capability development process. In these cases the process can rarely be continued before new, more skilful people enter the organization.

Documenting own experiences is an important learning mechanism instead of being dependent only on the intact knowledge residing in certain key employees. The prerequisite of developing M&A capabilities and learning from experience is being intentional and target-oriented. Development does not take place automatically or unintentionally. Applying experiences to situations completely different from those from which the experiences have been accumulated can actually be counterproductive and indicates that true learning has not occurred.

Capability to Recognize Market Dynamics and Industrial Differences in Developing M&A Capabilities: The capability to understand the market dynamics and the industry differences means that the acquirer is able to understand that the same M&A model does not apply for all different situations and environments. The capability improves on a long-term basis. A company with operations in different business fields should acknowledge that developing M&A capabilities requires a different approach in very turbulent markets when compared to a stable environment. This same reasoning can be extended to acquisition programs: if the acquisition program is launched on very dynamic markets, the optimal acquisition pace and rhythm are likely to be somewhat higher than in non-dynamic markets. Moreover, in dynamic markets acquisition capabilities need to be developed more proactively than in less volatile markets. A rather similar approach was used in both of the Case Company's acquisition programs, despite being carried out in different businesses. Although both programs have been financially successful, this simplification caused some problems. The targeted markets of Program 2 turned out to be more fragmented. Establishing a firm foothold in some of the Case Company's strategic locations proved to be challenging due to the lack of suitable targets. The optimal method in developing M&A capabilities therefore depends on the market dynamics. The capability to understand market dynamics is especially important for companies operating on multiple markets and industries like the Case Company. The acquirer should also acknowledge that the same profitability level cannot necessarily be achieved in every industry segment and take these differences into account while estimating the value creation potential.

7.2 Organizational Resources for Acquisition Programs

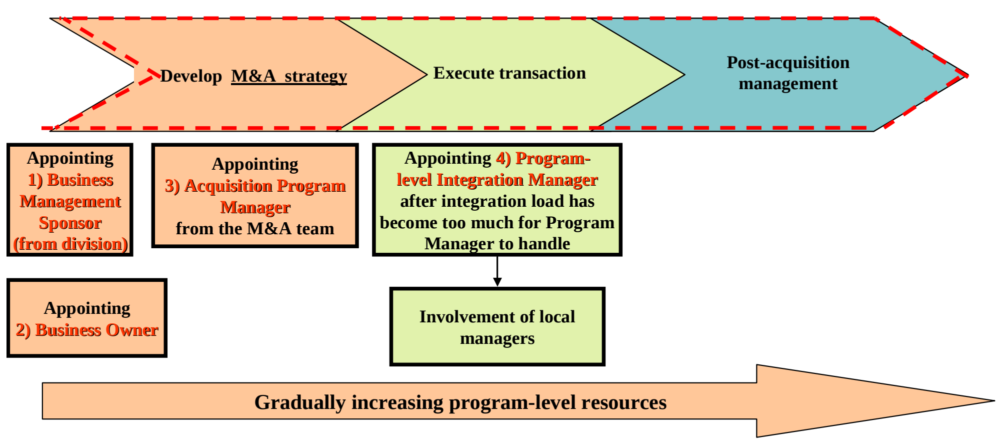

Figure 17: Allocation of acquisition program resources

The case study strongly indicates that a key factor for an efficient execution of acquisition programs is to have dedicated program level resources as visualised in Figure 17. The empirical evidence indicated that the two people, Mr. F and Mr. G who were involved in both programs were the most central reasons for the acquisitions not being only a loosely coupled stream of transactions but having a somewhat coordinated framework. Assigning more program level resources could have further increased the program coordination. The commitment of the Board of Management as well as the divisional managers turned out to be another essential prerequisite for successful acquisition program execution. The commitment of the Case Company's Board of Management and the division management were seen to fortify cross-selling efforts and enable the target's characteristics to be taken better into account. The management commitment would appear to have had the most visible effects when it was clearly communicated to the local units.

Establishing a process for implementing acquisition programs starts from developing the business strategy and selecting a suitable growth mode. The business divisions provide the initiative for the acquisition program since they has the overall responsibility for the acquisition program. Therefore, the first two people to appoint should be a so called "business management sponsor" and a "business owner": the business sponsor would ensure the divisional commitment for the program and the business owner would set the objectives for the business plan and the acquisition program. The business owner should have a clear vision of the business objectives achievable through the acquisition program.

Thirdly, an acquisition program manager should be appointed when developing the M&A strategy and the acquisition program plan in order to ensure a professional implementation of the acquisition program. The acquisition program manager would represent the professional M&A team and be in charge of developing the acquisition program plan, the timetables and the checklists for the program and be involved in all the transactions throughout the acquisition program. The business owner and the acquisition program manager would both be involved in target screening and target selection in order to ensure a professional target selection.

Having the most in-depth knowledge of the business requirements, the business owner would be responsible for developing the business plan and the integration plan for the acquisition program. The acquisition program manager would be responsible for integration management in the first transactions but this responsibility should be transferred to a separate program-level integration manager after the integration load becomes too arduous for the acquisition program manager. The integration manager should have a deep understanding of the targeted business and the business requirements.

The first successfully closed transaction may not yet signal that there are the makings of an acquisition program. However, it is important to take a program-level perspective already at this stage and to ensure that the Board of Management and the divisional managers are committed to the acquisition program. The acquisition program perspective signifies that an acquisition program manager is appointed already when developing the M&A strategy even though their work strain is likely to grow only at later stages.

In conclusion, the program-level resources should be gradually increased as the process evolves and more targets are acquired. Appointing one dedicated person for each particular process in the forthcoming acquisition programs could facilitate the coordination of the acquisition programs and enhance M&A capability development. The assignment of tasks are summarised in Table 8.

Table 8: Tasks of acquisition program resources.

Acquisition Program Resources	Tasks
1) Business Management Sponsor (from Division)	Providing and ensuring the commitment of the business division to the acquisition program
2) Business Owner (from Division)	Sets objectives for the business plan and the acquisiton program: what should the business look like after implementing the acquisition program? b) Coordinates target screening and selection together with Acquisition Program Manager c) In charge of developing the business and integration plan for the acquisition program -> in the planning phase, no need yet for a separate program-level integration manager
3) Acquisition Program Manager (M&A team member)	a) Develops the acquisition program plan b) Coordinates target screening & selection c) Involved in all the transactions in the program d) Develops timetables & checklists for program
4) Program-level Integration Manager	a) Appointed when integration load can no longer be handled by program manager b) In charge of integration on 3 levels: target-to-acquirer integration, target-to-target integration and program-level integration (integrating new business into rest of own existing business) c) Coordinates post-transaction integration on local level d) Involves managers of acquired targets in the integration of new targets

8 Recommendations

This chapter provides recommendations for the Case Company by using the Acquisition Program Capability Template 2 as reference. Although specifically developed for the Case Company, implications from the process description can yet be drawn for other similar large industrial companies as well. This process description is partly exemplified in Appendices 3 and 4 in a more detailed manner.

8.1 Developing the M&A strategy

The market analysis should be the first part of developing the M&A strategy and a major part of it should be carried out already when developing the business strategy. However, developing the M&A strategy provides a good opportunity for the acquirer to check whether these analyses have been adequately performed. Market analysis consists of analyzing the market size, average market growth rate, the market shares and sizes of companies active in the business, market profitability, market trends and key success factors in these specific markets. The feasibility of a market analysis varies across industries due to the different amount of relevant information available. If the markets are dominated for example by smaller, privately owned companies, it is likely that the information available about market profitability is not as reliable as it is for publicly listed companies.

Evaluating the feasibility of M&A growth is somewhat more challenging than carrying out the market analysis. Evaluating value creation potential of entering the business through acquisitions requires estimating the cash flow generation in relation to the purchase price. The acquirer should be able to evaluate among others how much the target company's sales can be increased through the acquisition and whether there are enough achievable synergies compared to the potential profitability level. The acquirer should analyze whether there are sufficiently target companies in the market that are large enough for it to establish a foothold in the business. The acquirer should evaluate the availability of targets in all the strategic locations: if a business in the strategically important areas is for example dominated by strong, oligopolistic companies, expanding through an acquisition program may be unexpectedly difficult. Additionally, industry regulations and restrictions on M&A placed in national legislation should be explored especially when expanding to an unfamiliar business or a business concentrated on a foreign country which the acquirer only has limited knowledge of.

The most challenging part of evaluating the feasibility of M&A growth is determining whether M&A is the best option for business expansion. Since at this point the acquirer is only gradually gathering information about the markets, only a qualitative analysis of different growth options may be carried out. The company should examine its stated objectives one-by-one in order to determine which growth mode is the most suitable. How fast does it wish to grow and does it need to achieve full control of the companies operating in the business? How much risk is it willing to take in order to expand to the business? Although it is not possible to compare all the growth options on an equal basis, a qualitative analysis should provide some kind of an understanding of the feasibility of unfeasibility of M&A in this particular situation. The capability to select acquisitions as a suitable growth mode and the capability to understand the value creation potential are essential elements of evaluating the feasibility of M&A growth.

8.2 Evaluating own strengths and weaknesses

After having analyzed the markets, the acquirer should evaluate its own competences against the expected business requirements. The company should understand the preconditions for a long-term success in the targeted markets as well as how much new in-house skills it would need to acquire in order to gain critical know-how of the new business. The company should evaluate the business cultures and business practices of the targeted market despite the little information available at this stage. Notably exceptional business practices such as a general consensus of operating in the legally gray area should be acknowledged as they may significantly reduce the attractiveness of business expansion through an acquisition program. The acquirer should evaluate the preconditions for realizing the expected synergies within the targeted business and evaluate whether it has the needed skills and capacity. Furthermore, the acquirer should contemplate on the concrete actions needed for effective synergy realization and be able to evaluate its financial strength and borrowing capacity against the requirements in the business. It should also be able to roughly estimate how many companies it would need to acquire in order to establish a foothold in the new business.

8.3 Developing timing requirements and target screening criteria

An acquisition program with an estimated timeline and a targeted acquisition rate provides a clear framework for the acquirer thereby decreasing the likelihood of occasional ad hoc –transactions. The targeted market position should provide some indications of suitable timing requirements – although these requirements may have to be revised later on in case underlying conditions change.

After having set the timeframe, the acquirer should develop screening criteria for the targets. The strategic location and the local market presence of the targets should be among the key factors in developing this evaluation criterion. The acquirer should thus far have gained a basic understanding of the key players in the business and their market presence. Moreover, the acquirer should have determined what kind of a market position it aims to achieve. It should evaluate the level of organic growth achievable as well as how much it expects to grow through the acquisition program. Determining the key factors for value creation and the most severe risks are among the most challenging issues in developing the target screening criteria: value creation sources vary across different industries and therefore, no generalizable guidelines for all acquisitions can be found.

After having developed the screening criteria, the acquirer should be able to evoke a high lead flow by using various sources for target identification. Internal knowledge of the industry, daily news flows, press releases, intermediaries such as bankers and consultants as well as companies listed in financial publications are examples of the variety of sources the acquirer can utilize. The internal industry know-how is often the most valuable source of information. This knowledge improves as the acquirer gains more M&A experience. While evoking a high lead flow, the acquirer should establish prioritization criteria for the targets. The market position, a strategically important location, an optimal business and sales mix and the difficulty of value realization through the acquisition program should be among the highest priorities in the criteria listing.

8.4 Assigning program-level resources

As strongly underlined in chapter seven, “Synthesis”, an acquisition program requires dedicated resources in order to be carried out strategically and in a structured manner. The program-level resources should be gradually increased as the acquisition program evolves. Analogously to individual acquisitions, some resources should be allocated already when planning the M&A strategy. A business management sponsor should be appointed from the corresponding division to ensure the division’s commitment to the entire acquisition program. Secondly, similarly to individual acquisitions, there should be a business owner with the overall responsibility for all the acquisitions. One M&A team member should be appointed as the acquisition program manager to coordinate the program and take part in all the transactions. A separate integration manager for the acquisition program should be appointed after the integration load has become too burdensome for the program manager to handle. The integration manager would be in charge of carrying out the integration plan on all the three levels of target-to-acquirer, target-to-target and program level integration. The compilation of the program team should remain the same throughout the program if possible.

8.5 Establishing milestones and checkpoints for the program

In order to deliberately develop M&A capabilities, it is important to set strict directions and forums where the M&A experiences can be shared. The M&A team members in the Case Company call feedback meetings for the integration team and the due diligence team if they consider it necessary. However, the M&A team holds no regular checkpoints after each transaction. In order for the M&A team to share their experiences and learn from each other, it would therefore be necessary to hold post-mortem reviews after each transaction. Furthermore, the M&A team should have later follow-ups to evaluate the post-transaction performance. Every M&A team member should be required to fill up a template before each post-mortem and follow-up session where they would assess the key performance indicators they are responsible for in the acquisition as well as evaluate set milestones.

Similarly to the M&A team, the acquisition program team should hold checkpoints after the first transaction in an acquisition program. The viability of the acquisition program should be evaluated in the first checkpoint, after carrying out only a few transactions. If the business no longer appears viable for the acquisition program, the company should review its possibilities to execute the business strategy through another growth mode. If the business in itself no longer appears lucrative, other business expansion options should be considered.

Once the business has been evaluated as attractive and after having acquired more targets, the original business plan should be compared to the outcome while also confirming the validity of the M&A strategy. This second checkpoint should occur approximately at latest one year after the first transaction in order for the acquirer to be able to review the financial and operational performance of the program as well as the performance of the key managers. The acquisition program team should hold similar post-mortem reviews after having closed the “final” deal in the acquisition program as the transaction team should hold after each individual deal.

The first program level post-mortem review should take place right after having closed the final deal. At this point, the current state of the acquisition program and the feasibility of continuing to acquire more targets in this business should be reviewed. The success and failure factors of the acquisition program should be analyzed in later post-mortem reviews taking place approximately six months and one year after having completed the final transaction. A communication channel for the key managers of acquired targets should be established to foster cooperation of the acquired companies. This communication channel would facilitate the target-to-target and program-level integration as well as support target screening.

The checkpoint and post-mortem reviews are visualized in Appendix 4.

Figure 14 visualizes the progress of the study.

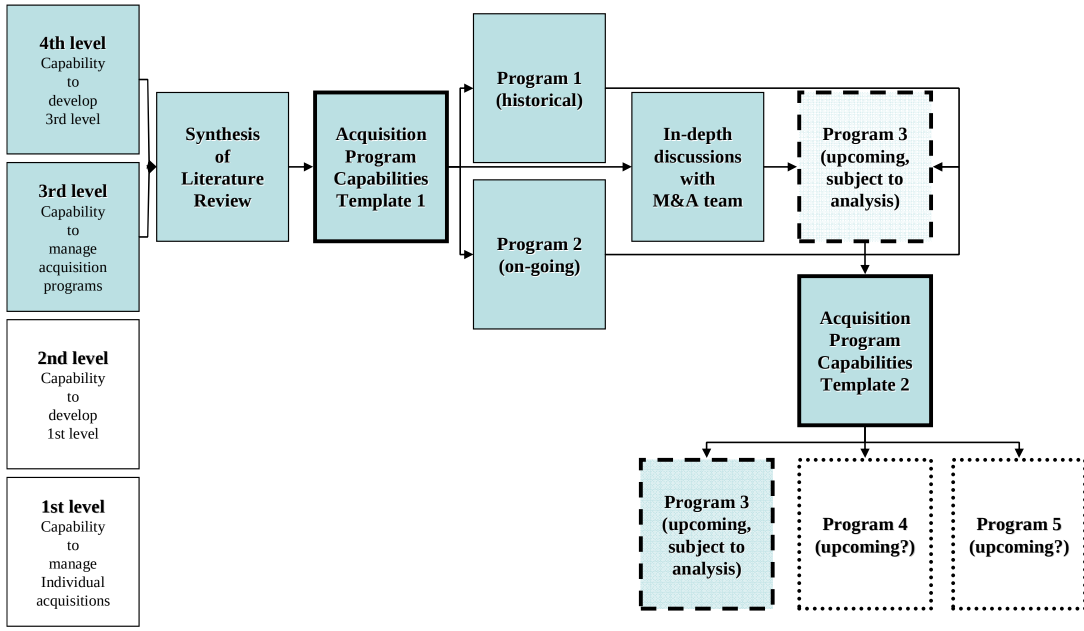

Figure 18: Progress of the study

9 Discussion

9.1 Overview of the M&A Capability Research

Research finds that multiple acquirers outperform their less acquiring counterparts (e.g. Bradley and Sundaram, 2005) and moreover, strategic acquirers outperform ad hoc acquirers that simply focus on promising individual deals (e.g. Salo, 2008). One of the golden rules of a successful M&A strategy is to focus on growth markets instead of merely on single targets (Anand and Singh, 1997). In order to become a successful serial acquirer, the company needs to be capable of selecting markets with true growth opportunities and value creation potential. The company should analyze the industry landscape in order to find the greatest sustainable potential for long-term value creation (Cools et al., 2007). Understanding own existing capabilities, the level of industry competitiveness and whether the markets are dominated by smaller or larger players enables the acquirer to estimate whether it has realistic prospects to succeed in the markets.

M&A strategy and acquisition profile can be partly defined by acquisition frequency and acquisition type. Although existing research has not been able to form a consensus on whether the relationship between acquisition frequency and M&A capability evolution is actually positive or negative, some conclusions can be yet drawn. Firstly, without a clear and structured M&A strategy, there is a risk of time being spent on activities that add no value. A well-planned acquisition strategy benefits the acquirer and has an impact on acquirer's performance (e.g. Salter and Weinhold, 1978) and a well-determined acquisition profile is a common feature of successful acquisition programs. An acquisition profile necessitates that the acquirer has strict parameters for the acquisition program which it does not deviate from (Albizzatti and Sias, 2004).

Acquisitions are not always the best method to achieve the set goals. Existing research suggests that mergers and acquisitions should primarily be seen as a tool among other potential growth modes instead of a strategy to grow as such. It is therefore important to compare other growth modes before deciding to acquire. Allocating too much managerial resources on acquisition processes diverts attention from the core business and may even decrease long-run performance. Markets are more likely to reward companies focusing on their strategic goals and selecting acquisitions that complement their distinctive capabilities (Palter and Srinivasan, 2006; Cools et al., 2007) than companies whose primary reason for acquiring is only to expand business.

A successful serial acquirer is not only reactive but is able to deal with opportunities proactively and recognize that different opportunities call for different strategies. Different strategies on the other hand require different integration methods and capabilities. Literature acknowledges low growth and resource rich companies to be the likely takeover targets (e.g. Lang et al., 1991). These companies with a clear imbalance in growth opportunities and the resource base are also predicted to be the best takeover candidates (Palepu, 1986).

Most M&A literature finds integration the most important determinant of post-transaction success. Good program-level integration management stands for a coordinated but yet adjustable integration concept. Especially the latest M&A research underlines consistently that integration planning should start already when negotiating the deal (e.g. Hitt et al., 1998; Zollo et al., 2004). Moreover, integration should be separated from the daily business as it may otherwise suffer from distractions.

There are somewhat conflicting findings on the optimal speed of integration although most studies find that a faster integration leads to a better outcome. Most studies also argue that timely milestones are important to guide and structure the integration process and (e.g. O'Reilly and Pfeffer, 2000). The most commonly realised risk in integration is the lost business momentum right after closing the deal. M&A research finds the business momentum often to be lost due to a wrong integration approach. Therefore, the acquisition rationales should affect the integration approach: if the acquirer regards the skilful target managers or employees as the most valuable asset, the retention of the old personnel and well-communicated organizational restructuring should be especially focused on. If the acquirer on the other hand wishes to cut the target's costs and improve its profitability, then assimilation is the key issue and preserving the target's old culture or line of management is not necessary. Preserving the old structure or management may even be unfeasible in this case since they may have been the main reasons for the poor pre-acquisition performance (Kaplan, 2001).

Learning and unlearning from experience is the final important stream of M&A research. The acquirer should be able to take advantage of its positive and negative experiences. Unlearning is often more challenging, since it is easier to reflect on the positive experiences than to prior failures. Learning and unlearning can either be internal or external. External learning mostly refers to benchmarking other companies' practices and tends to be more challenging than learning from own experiences. (Carow et al, 2004). The capability to deliberately develop acquisition capabilities requires the acquirer to have suitable and well-documented learning mechanisms. The starting point for the capability is to distinguish between ad-hoc problem solving and dynamic capabilities. Unlike ad hoc –problem solving, dynamic capabilities are conscious efforts to constantly develop the underlying processes and mechanisms by adapting to changing environments (e.g. Teece et al, 1997; Zollo and Winter, 2004). Developing capabilities on an ad-hoc basis may result in improved acquisition skills in the short-term perspective but do not set a framework for further development. Therefore, acquisition capabilities should be developed purposefully and continuously in order to foster organizational development (Hedberg, 1981; Nystrom and Starbuck, 1984; Klein, 1989).

9.2 Overview of the Case Company's M&A Capability Development

The empirical part of the study revealed that the Case Company has a highly professional M&A team as well as clear guidelines and templates for managing individual acquisitions. The development of the M&A function and the manuals for M&A processes prove that over the years, M&A capability development has taken place in the Case Company. However, the Case Company had acknowledged it did not possess all the essential features for successfully implementing an acquisition program. These deficiencies mostly arose from the lack of program-level resources and the lack of a formalised acquisition program process. The Case Company was seeking to further develop its M&A capabilities in order to move from individual acquisitions to broader acquisition programs and identify the key capabilities required for becoming a skilful serial acquirer. The company had so far implemented only a few acquisition streams it regarded as acquisition programs. In spite of the two acquisition programs examined here having performed financially well, especially Program 2 had not started in a very coordinated manner. Carrying out acquisition programs in a more professional manner and further developing the M&A capabilities would therefore require a well established process starting with developing the M&A strategy, moving on to program execution and finally ending by a coordinated the post-program management phase.

Two acquisition program capabilities templates were developed in this study. The first template was purely based on prior research and therefore mostly served as an academic starting point for the case study. The first template included capabilities that were estimated to be relevant for successfully managing acquisition programs. In the second and final template, the practical relevance of the model played a more significant role: the capabilities whose relevance was supported by the case study, were mapped along an acquisition program process description. The process from developing the first template to the final template required transforming a highly academic model into a practical template that would be realistically applicable in a large industrial company such as the Case Company. Whereas the first template purely presented a set of different capabilities assumed to be important for a serial acquirer, the final template was more of a process description of how to carry out an acquisition program. The capability template development process is next briefly summarized.

9.3 Acquisition Program Capabilities Templates 1 and 2

The first template can be described as a summary of the literature findings on M&A capabilities that appeared relevant for managing acquisition programs. The practical relevance is less apparent than in the second template. The templates are compared in Table 9.

The capability to select markets with high profit potential and to understand own capabilities to succeed in the markets was deemed as an essential capability both, based on literature as well as based on the empirical study. The capability to develop and implement an industry-adjustable M&A strategy refers to the capability of applying a strategy that is suitable for the industry dynamics and being able to adjust the strategy according to the underlying environment. This capability was regarded as the first prerequisite for launching an acquisition program. Research has found that although acquisitions are likely to decrease acquirer's performance at least in the short-run, they can create value with a suitable M&A strategy. The capability to develop an M&A strategy was not discarded from the second capabilities template but it was seen to cover several new capabilities: the capability to select the suitable growth mode, the capability to develop and carry out the acquisition program as a deliberate process and the capability to understand the value creation potential through the acquisition program as well as the capability to capture this value.

The capability to select acquisitions as the suitable growth mode was viewed as an important program level capability already when developing the business strategy in order to ensure that the acquisition programs are well-planned and to evaluate whether M&A is actually the best method to achieve the set objectives. The capability to understand the value creation potential through individual acquisitions and the acquisition program as well as the capability to capture this value potential likewise emerged through the empirical findings. Moreover, the empirical findings proved that having an M&A strategy is a necessary but not sufficient precondition for ensuring the possession of the capability to develop and carry out the acquisition program as a deliberate process: in order for the acquisition program to be coordinated, structured and well-managed, it also requires dedicated program-level resources to implement the M&A strategy and to carry out the acquisition program. The dedicated resources for the acquisition program are embedded in the capability to deliberately develop and carry out the acquisition program.

In the second acquisition program capabilities template, the target-related capabilities were divided into the target identification and selection capabilities as well as the capability to establish and communicate an acquisition profile, being viewed as the most relevant capabilities related to the target screening phase. The capability to acquire optimally-sized, strategically, organizationally and culturally fit targets was regarded as somewhat too ambiguous and simplistic, since it ignored other possible target selection criteria while yet equating strategic fitness with the more operational and therefore less important cultural and organizational variables. The capability to learn and unlearn was seen to be a relevant part of two different capabilities: the capability to deliberately develop M&A capabilities on the program level and the capability to recognize market dynamics and industrial differences in developing M&A capabilities. The empirical study proved that it was not enough for the acquirer to develop its M&A capabilities according to a strict manual: in contrast, the acquirer should be able to take the underlying market dynamics and the different industrial characteristics into account in this capability development process. Therefore the capability to recognize market dynamics and industrial differences in developing M&A capabilities was set as a separate capability in the second template since

The capability to integrate the acquired targets emerged as a self-explanatory key capability based on the extensive amount of M&A research focusing especially on post-acquisition management. The empirical findings provided further support for integration capability to be one of the key acquisition program capabilities. However, there was a need to clarify the integration capability and divide it into three levels: target-to-acquirer, target-to-target and program level integration management. The capability of optimizing the program scope was discarded from the second template and included in the integration capability since the level of relatedness turned out to be challenging to measure. Moreover, no relevant conclusions could have been drawn from only two case programs. Since the Case Company furthermore defined both acquisition programs in terms of the targeted business, the target-to-target relatedness was high for both programs and therefore, no valuable comparisons between the programs could have been made either.

Table 9: Comparing Templates 1 and 2

<table>
<tr><th>Template 1</th><th>Template 2</th></tr>
<tr><td>Capability to select markets with high profit potential and to understand own capabilities to succeed in the markets</td><td>Capability to select markets with high profit potential and to understand own capabilities to succeed in the markets</td></tr>
<tr><td rowspan="4">Capability to develop and implement an industry-adjustable M&A strategy</td><td>Capability to select acquisitions as the suitable growth mode when feasible compared to other options</td></tr>
<tr><td>Capability to develop and carry out the acquisition program as a deliberate process</td></tr>
<tr><td>Capability to understand the value creation potential through individual acquisitions and an acquisition program</td></tr>
<tr><td>Capability to capture all the value creation potential</td></tr>
<tr><td rowspan="3">Capability to acquire optimally-sized, strategically, organizationally and culturally fit targets</td><td>Target identification capability</td></tr>
<tr><td>Target selection capability</td></tr>
<tr><td>Capability to establish and communicate profile of targeted acquisitions</td></tr>
<tr><td rowspan="2">Capability to learn and unlearn from experience</td><td>Capability to deliberately develop M&A capabilities on the program level (Capability to learn and unlearn from experience)</td></tr>
<tr><td>Capability to recognise market dynamics and industrial differences in developing M&A capabilities</td></tr>
<tr><td>Capability to manage acquisition program integration throughout the process</td><td rowspan="2">Capability to manage target-to-acquirer, target-to-target and program-level integration throughout the process</td></tr>
<tr><td>Capability to optimize the acquisition program scope: optimizing acquirer-to-target and target-to-target relatedness</td></tr>
<tr><td>Capability to acquire steadily and through all economic cycles</td><td>Capability to acquire steadily and through all economic cycles</td></tr>
</table>

Acquiring steadily and throughout all economic cycles was strongly emphasized by the literature and it was therefore maintained in both templates although the empirical study did not provide much additional groundings for the capability.

In conclusion, most of the capabilities that were presented in the first template were viewed as relevant in the final template and these capabilities have been annexed to the correct steps in the acquisition program management process. The Acquisition Program Capabilities Template 2 combines the operational process level of managing acquisition programs with the key program-level capabilities. The template contains the key capabilities and the necessary analyses and actions prior to entering a business through an acquisition program. The key focus of the Acquisition Program Capabilities Template 2 is on providing the guidelines for a company to plan, execute and manage an acquisition program successfully.

9.4 Managerial Implications and Further Research

This study contributes to the M&A capability research by examining acquisition programs and acquisition program capabilities. The study found that it is possible to define the key capabilities for managing acquisition programs and that there are common characteristics for successful serial acquirers. The study also found that it is possible to come up with an optimal process description for managing acquisition programs and to map the key capabilities along the process description. There is also an optimal manner for an organization to allocate the M&A capabilities and responsibilities as well as mechanisms to facilitate deliberate M&A capability development and learning.

The study divided M&A capabilities into four hierarchical levels of which the two lower levels are related to individual acquisitions and the two highest levels describe acquisition programs. The study focused on the program-level M&A capabilities and was able to deepen the understanding of the key M&A capabilities required for managing multiple acquisitions. The study combined the highly academic concept of M&A capabilities with the operational process-level description of planning, executing and integrating an acquisition program. Furthermore, the study examined the capabilities to constantly develop acquisition program capabilities and found that both, managing an acquisition program as well as developing the capabilities to manage an acquisition program need to be well-planned, deliberate and coordinated.

The general interest in M&A capability research is gradually increasing. Research is shifting focus from individual acquisitions to multiple acquisitions and the preconditions of becoming a successful serial acquirer. Recent research views M&A capabilities as dynamic capabilities that need to be continuously developed and coordinated. The study on dynamic capabilities has extended its approach from single transactions to capabilities of managing serial acquisitions. However, a lot needs to be done before the M&A capability development can be fully understood. Acquisitions are a challenging process to handle and developing specific capabilities to perform acquisitions successfully is even more difficult. The difficulty in learning how to acquire successfully likewise lies in the complexity of acquisitions.

The highest level of M&A capabilities, the capability to develop the capabilities to manage acquisition programs, still remains a challenging and a vastly unexplored research area. Learning how to intentionally develop M&A capabilities is a prerequisite for a successful serial acquirer aiming to improve its acquisition performance in the long-run. The acquirer must be able to identify the critical capabilities and understand how and when to shift the emphasis between different capability areas. Like acquisition program management, M&A capability development can never be ad hoc-based but it must always be thoroughly planned.

Acquisition process as a whole consists of steps that are intricate as such. Acquisitions tend to occur infrequently and somewhat unpredictably, which reduces the firm's ability to accumulate its experience. Acquisitions are often very dissimilar by nature and therefore it is challenging to find a "one-size fits all" solution. The success of an acquisition lies in the synergy realization. In general, it is safe to say that acquisitions do involve risks. Yet, there are also risks in relying solely on organic growth and letting acquisition opportunities pass by to potential competitors. In a competitive world risks can never be completely avoided – but they can be managed.

INTERVIEWEES AND INFORMATION SOURCES

Interviewees from the Case Company in alphabetical order

The M&A team = Heading the negotiations, carrying out the acquisition transaction phase and having a role in planning and supervising the post-transaction integration phase

Mr A = M&A Team member; experience from acquisitions performed in all business divisions. He had the main responsibility for the post-transaction integration until the beginning of year 2009.

Mr B = M&A Team member; mainly accounts for acquisitions in Division B

Mr C = M&A Team member; M&A Team member; mainly accounts for acquisitions in Division A

Mr E = Head of Business Development of Division B

Mr F = Head of Division B

Mr G = Program 1 and Program 2 manager, a member of Division B management team

Ms A = former M&A team member, financial analyst for the team but only stayed with the company for one year

Mr. H = Head of M&A Team, involved in planning the corporate level acquisition strategy and usually takes part in the larger acquisition projects. He is a regular visitor of all the business divisions' management teams.

Mr. M = Manager of AP2-4, in charge of Program 2 –business category

Mr. X = former M&A team member, the first subordinate for Mr. H

Other Information Sources

The Case Company's internal accounting records

Mr. Uotila's interview compilation (20 interviews, mostly managers of acquired targets):

Mr. I = Manager of AP1-1

Mr. J = Manager of AP1-2

Mr. K = Manager of AP1-3

Mr. L = Manager of AP1-4

Mr. N = Manager of AP2-5

Mr. O = Manager of AP2-2

Mr. P = Manager of AP2-3

Mr. Q = Manager of local Case Company unit where AP2-5 was integrated

Mr. R = Ex-owner of AP2-4

Mr. S = Ex-owner of AP2-5

Mr. T = Ex-owner of AP1-3

Mr. U = Local AP1-1 person, involved in integration

Mr. V = Local AP1-3 person, involved in integration

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APPENDICES

APPENDIX 1 – Formulas for calculating financial performance for acquisition programs

(1) EBIT = Operating revenue – Operating expenses + Non-operating income

The Case Company measures the targets' pre-acquisition profitability as the EBIT percentage due to the simplicity of the measure. EBIT could be in most cases directly seen from the annual reports of each target prior to integration. For the purpose of this study, we calculated EBIT on the acquisition program level and compared the figures of the two case programs with each other.

(2) Economic spread = ROIC – WACC

$$\text{Economic spread} = \underbrace{\text{ROIC}}_{\boxed{\frac{NOPAT}{InvestedCapital}}} - \text{WACC}$$

NOPAT = EBIT – Cash Operating Taxes

$$\text{NOPAT} = \text{EBIT} - \underbrace{\text{Cash Operating Taxes}}_{\boxed{\begin{array}{ll} - & \text{increase in deferred tax liability} \\ + & \text{tax subsidy on deductable expenses} \end{array}}}$$

Invested capital = Total Assets – Non-Interest Bearing Current Liabilities (NIBCLS)

In calculating the economic spread of each acquisition, a member of the Case Company's M&A team was consulted in order to ensure the correct use of the financial indicators. It was possible to use the income statements of the individual acquisitions until the acquired companies were also financially integrated into the Case Company. Yet, some simplifications had to be made due to the lack of available data. The program-level measures were calculated as the sum of the individual acquisition measures.

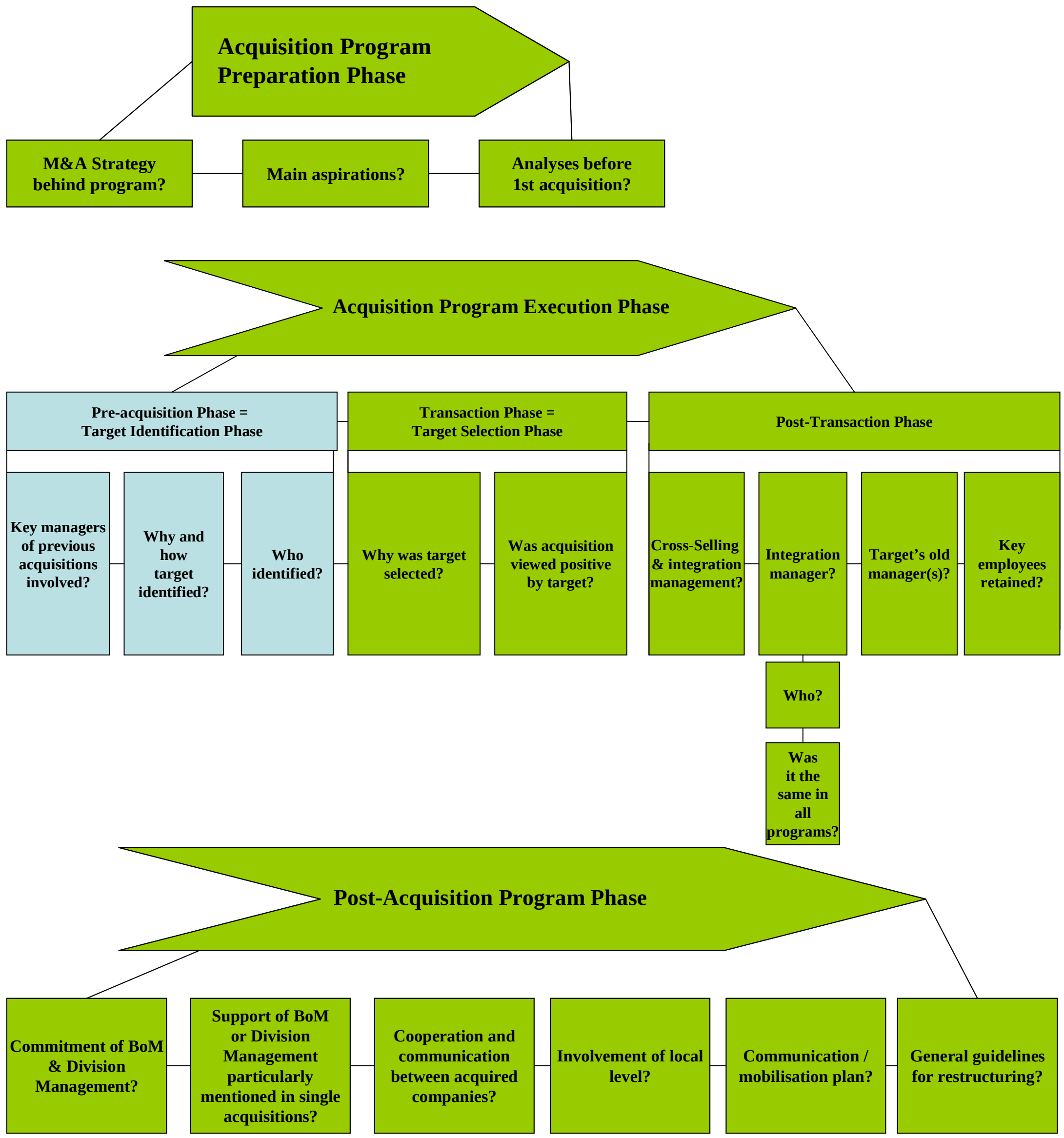
The accrual-based operating profit, earnings before interests and taxes (EBIT) is calculated by the company's M&A team for each acquisition. In order to calculate the economic spread, this figure had to be translated into cash-based net operating profit after taxes (NOPAT). Additionally, the expenses that could actually be considered as investments were capitalized on the balance sheet. Finally, since equity is expensive and since investors are looking for their investment to cover the investment costs, a capital charge was deducted from the net operating profit in the form of the weighted average cost of capital (WACC).

The correct method to calculate NOPAT would have been to add so called "key adjustments" to the EBIT –values and then to subtract cash operating taxes from the result. The key adjustments would have included converting accrual to cash by adding the allowance for bad debt and capitalizing debt and equity equivalents by adding the implied interest on operating leases. However, due to the lack of available data and the fact that both of these figures would have been close to zero in each of the acquisition cases, they were excluded from the final NOPAT values.

The cash operating taxes could be extracted from each acquisition's financial tax data sheets until the targets had been integrated into the Case Company. They indicate the taxes the company actually pays with cash. After determining the net operating profit of each acquisition, the amount of capital invested in each of the transactions was calculated.

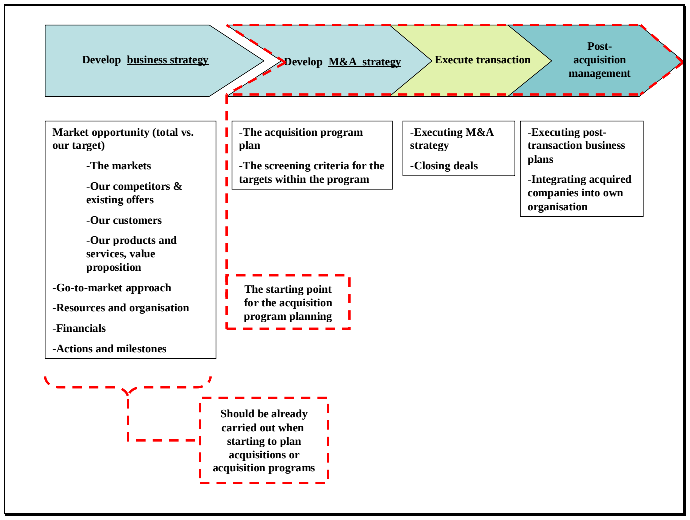
The next step was to calculate the invested capital for each acquisition. Since the pure balance sheets also include items that are not funding sources and since we only wanted to include company's funds and financing that was provided by shareholders and lenders, the pure book value of the total assets could not be used as such. In order to get the actual amount of invested capital, non-interest-bearing current liabilities (NIBCLS) had to be subtracted from the total assets. The NIBCLS include e.g. trade payables and advances received. Once again, due to the lack of available data, we have not made the orthodox key adjustments to the book value of invested capital, which may results to some inaccuracies in the values.

APPENDIX 2 – Questions asked in each stage of the acquisition programs

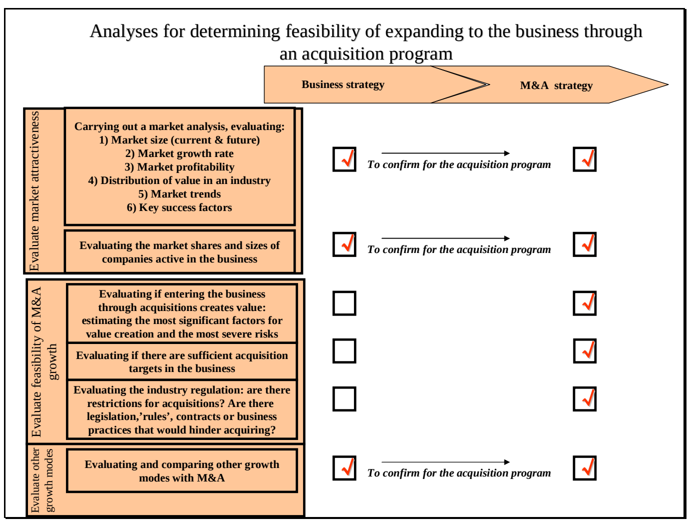


APPENDIX 3 – A Process Description for Managing Acquisition Programs

Slide 1



Slide 2



Slide 3

Questions to ask, examples of the analyses

PRIORITIZATION CRITERIA FOR TARGETS	Issues to consider
1. Is the target located in a strategically important area?	The market position and the strategic location are the most important issues to evaluate when selecting targets
2. Evaluating the market position of the target in its region: is it well positioned?	
3. What is the business and sales mix of the target? What is the services / new sales split? How large of a portion of the total sales is own production and how much is resale?	The sales mix is almost as important to evaluate as the market position and strategic location -> evaluating the services / new sales rate of the key players in the business by using public information such as the companies' annual reports
4. Evaluating the difficulty to realize the value & evaluating the level of expected risks	Further evaluations if a target appears very risky due to e.g. the value lying in the key employees -> how to retain key employees during the transaction?
5. Setting a minimum value for historical sales during a certain period & evaluating EBIT level & growth potential	Determining the magnitude of target's sales; EBIT not necessarily highly positive but must have EBIT growth potential
6. Would the target add value to the acquirer's own reputation and image?	A remarkably poor reputation may have a negative impact on the acquirer as well
7. Does the target have a sound technical base and resources?	An insufficient or neglected technical base of the target may impede the value realization possibilities of the acquisition

Slide 4

Capability	***At which stage of the process does the capability emerge?***	***Explanation***	***Motivation: why is it important?***
1) Capability to select markets with high profit potential while understanding own capabilities to succeed in these markets	-The capability emerges already when planning top-level business strategy and especially when developing plan for the acquisition program. The capability to select markets is both, a 1st level capability (the capability to manage single acquisitions) as well as a 3rd level capability (the capability to manage acquisition programs.	- Capability consists of two different parts: 1) the capability to identify and select markets with high profit potential and 2) to understand own capabilities to the capability to understand own capabilities to operate successfully in these markets.	-Market selection capability is important since successful serial acquirers are able to focus on long-term growth markets instead of only single targets -Poorly selected markets offer no long-term growth opportunities and may even deteriorate total performance -Not enough for acquirer to select growth markets but also essential to understand if it possesses own capabilities that enable it to succeed and compete in the markets
	Best practice? Implications from research?	***Operationalising capability***	***Where is the Case Company now and what should be improved?***
	-Successful serial acquirers focus on growth markets instead of only single targets (Anand and Singh, 1997). -Markets must have growth opportunities and value creation potential (e.g. BCG, 2007) -Company should be able to estimate whether it has the actual capabilities to compete for potential market returns, since even profitable markets provide no value for a company unable to compete in these markets (Hayward, 2002). -Capability to select profitable markets is important for long-term success: markets appearing profitable at the time of entering the business may turn out unprofitable in the long-run and result in very high opportunity costs	-Evaluating the market shares and sizes of companies active in that business -Carrying out a market analysis: evaluating -1) Market size (current & future) -2) Market growth rate -3) Market profitability -4) Distribution of value in an industry -5) Market trends -6) Key success factors -Evaluating own technical and business-related competences against requirements of targeted business – enough own resources and capabilities to succeed in the markets? If not, even attractive markets should be omitted from business expansion objectives	-Business 1 and 2 turned out to be profitable. -Market analysis was carried out before acquiring companies in Program 1 but a similar market analysis was not performed for Program 2 -> Business 2 'known' to be attractive, a competence matrix was developed to map where in Business 2 the Case Company should be geographically present -A market analysis should always be carried out before implementing any acquisition programs

APPENDIX 4 – Checkpoints and Milestones for Acquisition Programs