



Abstract

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Abstract	
<p>M&As have been the most visible phenomenon of the last decade. Therefore it is critical to pay attention to M&A success and its significance to the acquirer. The incremental growth of M&As, require due diligence (DD) in order to achieve success in acquisitions where an outsourced advisor is assisting but also doing the due diligence on the behalf of the acquirer.</p> <p>The purpose of this research is to define and find factors that affect the role of advisory services through involvement and contribution, responsibilities and tasks and challenges of outsourced advisors conducting due diligence in the context of acquisitions. The task of due diligence is to provide a vast, comprehensive investigation of the target company revealing risks and possibilities of the deal.</p> <p>This study is concentrated on the acquirer's perspective therefore that they often lack professional experience in conducting due diligence and as a result of this, the role of an outsourced advisor is emphasized.</p> <p>Research questions are answered on the basis of theoretical framework reflecting empirically what the process of acquisition and due diligence withholds, and therefore analyzing the role of advisory services in the whole process and what key factors are affecting the role of advisors. There are several different advisors interviewed and their opinions are reflected with each other in order to provide thematic empirical frame for the whole research on the basis of theory. Findings and conclusions of the study are divided according to sub objectives.</p>	
Key words	Due diligence, acquisition, advisory services,



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Tiivistelmä

Yrityssostot ovat olleet yksi näkyvimmistä ilmiöistä viime vuosikymmenenä. Tämän takia on välttämätöntä huomata yritysoston onnistumisen tärkeys yritysoston ostajalle. Yrityskauppojen kasvun vuoksi due diligence (DD) on tärkeä osa yrityskauppaa, jossa ulkopuolinen asiantuntija on mukana avustamassa kuin myös usein tekemässä due diligencea ostajan puolesta.

Tämän tutkielman tavoitteena on tarkastella ulkoistetun asiantuntijan roolia sen kokonaisvaltaisuuden, annetun vastuun, tehtävien laajuuden sekä haasteiden kautta yrityskaupan yhteydessä suoritettavassa due diligence –tutkimuksessa. Lisäksi tutkielmassa tarkastellaan asiantuntijoita sen kautta mitkä tekijät vaikuttavat heidän rooliin. Due diligencen tavoitteena on saada mahdollisimman kattava kuva ostettavasta kohteesta, liiketoiminnasta sekä riskeistä ja mahdollisuuksista.

Tutkielmassa on tarkasteltu prosessia ostajan näkökulmasta, sillä ostajalla ei aina ole tuntemusta ostettavan yrityksen toimialasta ja liiketoiminnasta, jolloin erityisesti asiantuntijan roolissa toimivan konsultin työpanos korostuu.

Tutkimuskysymyksiin vastataan teoreettisen tutkimuksen pohjalta empiirisen tutkimuksen valossa mitä yrityskauppa ja due diligence –prosessi pitää sisällään sekä miten asiantuntijan rooli korostuu prosessissa. Tutkimuksessa on haastateltu eri alojen asiantuntijoita, jotka tekevät due diligence-tarkastusta. Heidän näkemyksiä on tarkasteltu ja vertailtu teemoittain toisiinsa.

Asiasanat	Due diligence, yrityskauppa, asiantuntijapalvelut
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**THE ROLE OF ADVISORY SERVICES
CONDUCTING DUE DILIGENCE –PROCESS
IN THE CONTEXT OF M&A**

Masters thesis in International Business

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1 INTRODUCTION

1.1 Background to the study

Investments and allocation decisions of resources affect significantly to the success of a company. One of the most significant form of an investment are M&As (Mergers and acquisitions). (Blomquist, Blummé, Lumme, Pitkänen & Simonsen 2001, 7.)

Mergers and acquisitions (M&As) have been a visible phenomenon of last decade. The amount of mergers and acquisitions has grown tremendously during the years 2002-2008. In 2002-2008 there were a steady growth in the Finnish and world economy. (Deloitte: Strategic planning 2009, 4.) In addition, single acquisitions became larger and more international. According to Talouselämä, the most blooming period of the acquisitions was in 2007. The amount of acquisitions, 768, acquired in Finland in 2007 was a record after the year 2000. The amount of cross boarder acquisitions increased when the Finnish companies bought 105 companies from abroad and international companies bought 101 Finnish companies in 2007. (Koskinen 2008).

Despite of the popularity of mergers and acquisitions, in 1997 less than 20 % of them achieved desired financial or strategic objectives. (Marks 1997, 267). More than a decade later, in the beginning of 2009, the amount of acquisitions declined dramatically by 42% due to the downturn economy and the size of the M&As were 48% smaller measured by turnover during the 2009 (Alkio 2009); (Alkio 2010). In addition cross border M&As also experienced the downturn. According to Taloussanommat and survey conducted by KPMG, in the year 2008 acquisitions declined by fifth where the other party is Finnish. (Kynnäräinen 2009) In addition cancellation of acquisitions became relevant for certain companies since the prices of the potentially acquired firms were not in line anymore with the actual market value of the business in the new conditions. (Deloitte: Strategic planning 2009, 18). Ultimately, despite of the popularity of the M&As or the downturn economy, appropriate prudence need to be applied. At the moment there are significant structural and industrial changes in the mindsets of big corporations that have been predicted to happen in the future. This change explains a move towards a more service oriented and soluble as well as more selective in the value-chain and geographically spread company. This sort of development of a single company is only possible by acquisitions and therefore sets new demands for the executives of an acquiring company. (Bäck, Karsio, Markula & Palmu 2009, 16).

Due to a complex economical situation of today, companies often need advisors' external help when acquiring a company. Appropriate advisors should be used to have local advice in international transactions due to jurisdictions that differ from each other. (Howson 2003, 13.) Globalisation, the growth of knowledge, innovations and

development of IT affect the possibilities and environment of every organisation. Nowadays what use to be the core activity or knowhow of an organisation may be bought from the external experts. (Huttunen, 2003, 11-12) Instead of using internal workforce with expertise, it became popular to outsource experts from external markets. (Furusten - Werr 2005, 1).

Due to the growth of acquisitions it is also vital to pay attention to the contracts between the parties involved in an acquisition. A company that is on a verge of buying a new company has to do a thorough investigation of the target company in question. (Blomquist et al. 2001, 9.) While there does not exist a single reason to high failure rate of acquisitions, many transactions prove to be unsuccessful due to that acquirers have a habit of cutting off corners downsizing important due diligence work. Believing to shorten the process by gaining time, saving money and sparing feelings, the acquirers miss out the one-time chance to explore risks before signing the deal. (Clements 2000 12.) The phase of pre-acquisition is crucial taking consideration the success of the whole acquisition process. Therefore a company has to be capable to detect all the threats and opportunities during the integration process as well as problems occurring after the integration in the post-acquisition phase. According to Tanhunen - Werner (2008, 5) the problems typically are a result of inefficient preparation and incomplete terms of the deal. Ultimately inefficient preparation can lead to trials between the parties and therefore outsourced experts are important help in the preparation of the acquisition. Typically lawyers, accountants and other consultants assist as advisors in the acquisition. (Blomquist et al. 2001, 32.) Advisors not only provide services to the acquirer but to the vendor as well. Investment banks and lawyers act as typical advisors helping the vendor to sell its business by assisting with deal management throughout the selling process (Blomquist et al. 2001, 33). The questions to be solved in the acquisition process are the same for the buyers as well as sellers: At what price and at what risk. (Clements 2000, 12.) The vendor can have a completely different opinion of the valuation of the company then the acquirer has, therefore the acquirer is left with an independent responsibility to do the valuation of the target company. (Blomquist et al. 2001.)

There are plenty of arguments for using due diligence in acquisitions in addition to a good reason to use experts. The planning and the execution of acquisitions have become a standard procedure but not yet a routine for the management (Bäck et al. 2009, 11). In order to achieve success, it is essential to receive the right information at the right time. In the complicated economic environment, the base for organizational success is to have knowledge to act fast. This requires ability to discover and solve problems from the management of the organization. However, not all knowledge is reasonable to have in the organization in order to solve every problem. Therefore it makes sense to outsource an expert to provide information. (Huttunen 2003, 20.) An advisor represents

information and information equals expertise (Huttunen 2003, 196) ; (Huttunen 2003, 12).

There are several factors affecting the role of advisory services in the context of acquisitions but more important is to find significant, common factors affecting the role of advisory services in the due diligence process. The more essential is the role of advisory services, the bigger the chance is to succeed in the process through acquirer's initial interest of solving problems. (Huttunen, 2003, 20). Therefore it is critical to find features that affect the role of advisory services internally as well as externally. However, the field of advisory services in conducting due diligence is also changing. The advisory services have faced different structural challenges after the peak of M&As in 2007. Advisory services are now occupied by smaller acquisitions with less risk and potentially mandatory mergers may happen due to that some companies are forced to sell their businesses. (Kyynäräinen 2009). This can ultimately affect the role of advisory service in the future.

1.2 Previous studies on due diligence and advisory services

M&As is a common research issue and a popular phenomenon among business literature. It has fascinated multiple authors and many of the M&A literature (Lees 2007); (Pack 2002); (Reuvid 2007); (Cooper - Finkelstein 2005) has acknowledged the importance of aspect of due diligence. It is also vital to research the role of advisory services conducting due diligence in the context of acquisitions, due to that there is research made mainly about the subject of due diligence and its process perspective. The issue of due diligence is a common research issue in many previous studies such as (Howson 2003); (Howson 2008); (Blomquist et al. 1997); (Blomquist et al. 2001); (Bäck et al. 2009). The main research about due diligence has focused on value estimation and more or less on financial figures, as well as concentrated on the aspect of the buyer's process perspective.

However, the role of advisory services and advisors' aspect has been mostly neglected in general as the main objective of literature about due diligence in the context of acquisitions. Angwin - Savill (1997) have written about advisors' areas of expertise and to what extent they are outsourced in due diligence process. More generally the authors have discussed to what areas advisors have undertaken during due diligence process and why they are doing certain areas on the behalf of the acquirer. This aspect is also taken in the study to help explain the role of advisory services. In addition, mainly the literature about advisors (Furusten - Andreas 2005; Huttunen 2003) has been reviewing their role in general as consultants and focused more on principal-client relationship.

The aim of the study, defining the role of advisory services conducting due diligence in the context of acquisitions, is reached by combining the two theoretical frameworks introduced in previous studies: Role of advisory services and due diligence in the context of acquisitions. The objective of the study is introduced in the next chapter.

1.3 Objectives of the study

Although the literature on experts conducting due diligence is quite limited, the objective of the study is to define factors affecting the role of advisory services conducting due diligence process in the context of M&As.

The research combines two separate theoretical frameworks: Due diligence in the context of acquisitions and advisory services. The main focus is to discuss about the role of outsourced advisors conducting due diligence by providing due diligence services to the buyer of the due diligence service: acquirer or vendor of the company. Acquirer is more relevant instance for this particular study therefore that the theory has concentrated on experts providing due diligence services to acquirers. The experts have an important impact to the success of the whole acquisition since often they are the key persons not only assisting but also doing the due diligence on the behalf of the acquirer.

The purpose of the study is to analyze objectively the role of advisory services conducting due diligence in the context of M&As and finding key factors affecting the role. Sub objectives of the study are divided into three questions:

- What is advisors' contribution and involvement conducting due diligence in acquisitions? In other words this sub objective aims to understand features that affect advisors' involvement in due diligence process in acquisitions, and what is their contribution in it as an advisor. The purpose of this sub objective is to figure out why experts are used to perform due diligence service by explaining their purpose and clarifying the process of due diligence why and which extent the advisors are involved in the process.
- What scope are advisors' tasks and responsibilities when occupying different areas of conducting due diligence in an acquisition? The purpose is to define the areas of the due diligence by separating them into different dimensions revealing what tasks advisory services are performing and therefore what areas are they responsible for when conducting due diligence.

- What challenges are advisors affected by in the due diligence process and how they exploit their expertise? The question concerns what problems or challenges comes to fore during the due diligence- process from the point of view of an expert conducting due diligence and how advisors are solving them by using their experience?

The purpose of the sub objectives is to support the research question by examining the role of advisory services in the process of due diligence in detail what is the contribution due to why advisors are outsourced by an acquirer and what scope due diligence process is conducted through several areas of investigation on the behalf of the acquirer, exploiting their expertise by finding significant factors in the due diligence process affecting the acquisition. Understanding the nature of acquisitions, due diligence and advisory services is relevant in order to make further conclusions about the topic of the research. Emphasis of the sub objectives is on advisors conducting due diligence while the whole purpose of the study is to explain their role through conducting due diligence in the acquisition process and what factors affect it through defined sub objectives.

In order to make further conclusions there has to be done theoretical and more importantly empirical research, firstly what is advisors' contribution and how extent experts are involved in due diligence, in other words where they stand in the acquisition process and therefore why they are outsourced. Secondly, what areas they are occupied, what scope they conduct different areas of due diligence and what are their tasks and responsibilities. Thirdly, what issues they are affected in the process such as challenges of the due diligence process, in order to affect the outcome of the acquisition by using their expertise in conducting the due diligence. The research will figure this by interviewing experts from different advisory service companies who possess different experience and expertise in the field of M&As and due diligence.

In order to solve the objective of this particular study about factors affecting the role of advisory services in due diligence, the theory of due diligence process is reviewed from the buyers' perspective and advisors' role as consultants are brought into the process of due diligence by reviewing literature about consultancy in advisory services. The theory about advisory services is discussed through previous literature about due diligence in the context of acquisitions and advisors' role as the service provider in the due diligence process that are conducting it on the behalf of the acquirer.

Table 1: Research questions in the theoretical framework

Research question (Chapter 2): What factors are affecting the role of advisory services conducting due diligence in the context of M&As	Due diligence in the context of M&A	Advisory services
Question 1 (2.3), (2.4): To what extent the advisors are connected and involved in the DD-process in acquisitions?	<ul style="list-style-type: none"> • Planning and execution of acquisition process • (Howson 2003); (2008) • ” DD –process (Howson 2003); (2008);(Blomquist et al. 2001); Bäck et al. 2009) 	<ul style="list-style-type: none"> • Advisors’ contribution and involvement to the process (Anwin - Savill 1997); (Furusten –Werr 2005);(Huttunen 2003)
Question 2 (2.5): What are the tasks and responsibilities of advisors conducting different areas of due diligence?	<ul style="list-style-type: none"> • Areas of DD (Howson 2003); (2008); Blomquist & al. 2001; Bäck et al. 2009) 	<ul style="list-style-type: none"> • Responsibilities and tasks of outsourced advisory service (Huttunen 2003) ; (Blomquist et al 2001); (Bäck et al.2009)
Question 3 (2.6): What significant factors advisors are affected by and dealt with in the DD-process?	<ul style="list-style-type: none"> • Challenges of the DD –process (Lovallo et al. 2007) 	<ul style="list-style-type: none"> • Exploitation of expertise in problems (Huttunen 2003; (Furusten -Werr 2005)

Empiric research discusses about the theory thematically according to the sub objectives of this research. In other words, theory of the role of advisory services conducting due diligence in the context of acquisitions is discussed and linked together through previous literature and thematic interviews. Empirical research is connected to

the theory by interviewing six different advisors to make conclusions about advisors' role in due diligence through their involvement, tasks and responsibilities and exploiting their expertise in challenges they encounter, taking the current economical situation into consideration making the research contemporary and relevant for the existing time period in the world economy. Five advisors interviewed are service providers and one acquirer is an expert representing the acquirer side. The operational chart is attached to the end of this research where the theoretical framework is connected to empirical interview questions (Appendix 2).

Next, the content of this study is introduced briefly. In chapter 2 the theoretical part of this study is presented. The structure of the theoretical framework consist of acquisitions, due diligence as acquirer's process and the nature of advisory services. They are combined into one chapter in order to provide a background for the research theory in the chapter 2. Chapter 3 presents the methodology and the research design of the study is described. The empirical part of the study takes qualitative approach; the data is collected with thematic semi-structured interviews. In order to define the role of advisors in conducting the process of due diligence in the context of acquisitions, there has to be done some empirical research through discovering empirical findings relating to role of advisors and factors affecting it when conducting the process of due diligence in the context of acquisitions that are presented in the chapter 4. The empirical findings are reached by interviewing different advisors and one acquirer as a form of an expert in acquisitions. Three theoretical aspects of due diligence are presented: Planning and execution of the due diligence process, areas of investigation in due diligence and what challenges come to fore during the process. Significance of the role of advisors are connected to the due diligence and therefore studied from three different aspects; advisors contribution and involvement in the process, tasks, responsibilities and expertise of outsourced advisory services in different areas of due diligence and how to exploit expertise in issues that affected the advisory services in the process of due diligence. The research conclusions are discussed on the base of empirical findings in the light of theory in chapter 5 in the form of theoretical discussion and managerial recommendations and finally the summary is presented in chapter 6.

2 DUE DILIGENCE IN THE CONTEXT OF ACQUISITION

This chapter provides an extensive overview of due diligence in the context of acquisition process in general and use of outsourced advisory services in it. Due diligence is only one part of a whole acquisition or investment exercise but important one (Howson 2003, 1).

In order to understand where due diligence fits into the overall acquisition process, there are presented four stages of the acquisition process. They are presented because they are also affected by due diligence process at what stages due diligence is conducted. In order to grasp the definition of due diligence, it is important to understand the whole acquisition process first. The stages of the due diligence are presented in detail to provide an understanding about the due diligence process itself.

Secondly the definition of due diligence is discussed and clarified: what exactly is due diligence and why it is important to conduct as a part of an acquisition process. Accordingly, it is equally important to plan and execute the process in practise and which extent the process is conducted. The process perspective is introduced to provide an insight what kind process of due diligence is and why advisory services are hired to do the work instead of the acquirer performing it itself.

There are several dimensions of due diligence that are to be introduced where they fit in the whole process and what is their purpose. In addition advisors are linked to the chapter by what stages are they involved with and why to use specific expertise in particular areas of due diligence, what tasks, responsibilities they are occupied with as an expert having an expertise through experience and education. Here, the definition and the process of due diligence is explained from the point of view of an acquirer, the purchaser of a company, but there is briefly introduced also the vendor due diligence in order to see what areas of due diligence the acquirer and advisors are dealing with during the vendor due diligence process.

Issues affecting the due diligence process such as challenges, that come to fore affecting the acquisition process through conducting due diligence, are also presented in this chapter. It is vital to recognize the key factors affecting the deal in addition at which stage and to whom they are affected. The advisors often occupy challenges and there are significant factors affecting them throughout the process. Problems are considered as challenges when advisors are conducting due diligence, acknowledging their importance to the acquisition success by preventing and defeating problems.

2.1 Acquisitions

Acquisitions that are often referred as M&As, mean growth and competitive advantage. M&A is an abbreviation from mergers and acquisitions but due to that literature presents acquisitions as the most common form of M&A, it can be used as synonym for acquisitions, and therefore both definitions are extensively applied in this research. M&A is a common growth strategy to companies. Acquired companies provide benefits to their acquirer such as access to their markets, technology, finance and management skills among other benefits. Therefore companies are able to diversify quickly and increase market power through acquisitions. (Lees 2003, 3; Cooper - Finkelstein 2005, 1.) Acquisition is the most common way to organize ownership or business in a company. It equals arrangement where target company's substance or shares are bought. Acquisition is the most used term when matter is viewed from the buyer's perspective and handled as a strategic acquisition planned by the buyer. (Immonen 2008, 17.) In order to define the acquisition better, it is reasonable to present briefly how an acquisition process is constructed.

There are four stages in the acquisition process listed by Howson (2003):

1. Strategy,
2. Search and approach
3. Negotiation and agreement
4. Post-completion

Erkkilä (2001) has also presented four stages of acquisition process: acquisition strategy, scanning for targets and preliminary due diligence, acquisition stage and publishing the acquisition and integration of the target. The model of Howson (2003) is a more extensive description of the process and is therefore picked for this research to be described more detailed but Erkkilä's model (2001) is taken in consideration as comparison:

Strategy is regarded as the skeleton to an acquisition. Its purpose is scanning for potential targets, defining information that will be collected of the target by conducting pre due diligence, and therefore it is initial strategy also for communication that are relevant at the integration stage and post-completion stage. Precise planning should take place before starting to implement the acquisition. There should be always a strategic reason behind the deal. (Howson 2003, 2.)

In the second stage, **search and approach**, the buyer is identifying an acquisition target and making an approach. This can be done following a proper strategic review in which acquisition has been identified as a logical strategic tool. Scanning for potential

targets refers to preliminary work that is done in order to perform competitor analyses, firm's own market surveys, and public financial information. (Howson 2003, 2.) Scanning potential targets can be a part of the due diligence work. According to Erkkilä (2001) this stage is referred as preliminary due diligence. The more thoroughly the firm has defined its acquisition target to pursue its strategy, the better are the chances to a successful acquisition and integration.

If an approach leads on to agreement to take things further, the deal enters the third stage: **preliminaries to negotiation**. The two parties figure out the broad terms of the deal and the buyer will begin due diligence. Successful due diligence leads finally to negotiation. The objective of this stage is to discover if a deal is creating value added to the acquirer at a reasonable price and therefore evaluating what is a reasonable price for the acquirer. (Howson 2003, 2.)

Post-completion: If all goes well, the deal is completed. However as a result of this stage, the acquirer may either withdraw from the deal or decide to complete the deal. Then the buyer enters stage four, embedding the acquisition. (Howson 2003, 2.) ; (Erkkilä 2001, 24- 26.)

2.2 Definition of due diligence

Due diligence expresses appropriate thoroughness and specific assessment of the target company. (Blomquist et al. 2001, 9). "There is no dictionary definition of due diligence nor standard legal definition either. A lawyer would probably define it roughly as follows: a process of enquiry and investigation made by a prospective purchaser in order to confirm that it is buying what it thinks it is buying." (Howson 2003, 4.) However, the term due diligence means "appropriate prudence" and Black Law dictionary defines the concept as follow: "Such a measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man under the particular circumstances; not measured by any absolute standard, but depending on the relative facts of the special case." (Black's Law Dictionary 1990, 457.) Lees (2003, 95) describes audit of target company in other words due diligence as following words:

"Due diligence is not just about compliance with legislation, custom and practise. More importantly, it is about judgements concerning the sorts of information ought to gather on a target company finalizing a deal. That in turn is shaped by the strategic mindsets through which acquisitions are viewed."

The buyer's obligation of examining the target company is not required by the law but rather it is recommended to conduct when it is possible to turn to the seller if something goes wrong in the deal. (Blomquist et al. 2001, 7) This perception of

obligation to assess the target company has arrived from Anglo America where due diligence is initiatively always done by the buyer. The Cadbury Report is a report of a committee chaired by Adrian Cadbury. This board sets out recommendations on the arrangement of company boards and accounting systems to minimize corporate governance risks and failures. In addition it has recommended that significant acquisitions are to be reviewed by full board of directors of the acquiring company in order to ensure that all issues are covered and therefore due diligence reports may be required. Secondly, listed companies may need a shareholder approval if the acquisition is significant and therefore they require a report. In addition, in public deal in Europe, synergy papers are important and critical in pre-planning considering acquirer's cost-savings and revenue enhancement targets approved as realistic. Ultimately it is also a defence against charges of negligence of the transaction. It is suggested to be able to check the data through conducting an investigation. (Howson 2003, 8.)

Due diligence is an objective assessment of the target company (Angwin 2001, 35). In practical sense due diligence is a definition for all the analysis and investigation that the buyer conducts for the lack of knowledge or decision making process in the context of an acquisition. (Bäck et al. 2009). Due diligence has been criticized that it takes too much time and resources. It is said that the process is something that the buyer already knows. More or less it is question of applying financial models but in addition it is typical project management. Ultimately due diligence involves getting answers to many questions in a short time period. (Howson 2003, 1.)

The objective of due diligence is to provide information to the considerate party about issues concerning possibilities, risks and certainty of the future of the acquisition and therefore help to use this information to ensure the best possible outcome in the context of acquisition. (Bäck et al. 2009, 23.)

The evaluation of possibilities. The purpose of due diligence has been studied. Due diligence provides value added in acquisitions. (Angwin - Savill 1997, 432.) The possibilities involve examining valuable information received from the target company and evaluating possibilities that the deal provides to the acquirer. It is important to investigate equally possibilities and risks, therefore not only eliminating risk factors. It is vital to recognize why the acquirer has got involved with the acquisition process in the first place. (Bäck et al. 2009, 23.)

The evaluation of risks. The most important factor according to Angwin - Savill (1997) is comfort of-no black holes. In other words the value adding effect is reduction of risk. Following purposes, as insight of management is to help in price negotiations is noticed in addition to commercial insight to help in plan integration and assessing cultural fit value. (Angwin - Savill 1997, 432.) Its purpose is to provide security to the buyer, experts and other stakeholders and an insight that the value and the risks of the acquisition have been understood. In addition it provides security to the negotiation

process. A good and an efficient due diligence reveals risk factors that can lead to the closing of the negotiations or even the failure of the acquisition. (Angwin 2001, 35.)

Future certainty. The successful acquirer's objectives of due diligence goes further than only evaluating possibilities and risks. The objective of due diligence is not to audit or verify past performance. In addition it is not just looking for black holes or defining the price of the deal. It aims to do all of these but more important to success is to assess future prospects and how they will be realized. (Howson 2003, 6.) It is difficult to assess future prospects due to that there does not exist a standard for the comprehensiveness of the process but there are some factors that are taken in consideration such as the position and the knowledge of the buyer, the execution of the acquisition, the probability of mistakes, the relationship of the parties of the acquisition, the time and the money in hand for the assessment and the number and comprehensiveness of the insurances and guarantees promised by the seller. The content of due diligence is consisted individually in each specific case by the previous factors. Taking these matters first in consideration, planning and the execution of due diligence can be executed. The extension of obligation of conducting due diligence is determined by how the obligation is originated: self-initiated, recommendation of the seller, opportunity offered or the buyer has discovered suspicious factors in the deal. In other words, the extension of the assessment originates of the interest of the acquirer. Some reasons to do an extent due diligence can refer to the size of the deal and the resources of the party that want to conduct the assessment. Ultimately due diligence consists of collecting, analyzing, documenting and reporting material about the target company that spend outstanding amount of acquirer's resources. In addition due diligence provides tools to follow-up business after the integration and fix problems that come to fore after the acquisition. (Blomquist et al. 2001, 18 - 24.)

2.3 Planning and execution of due diligence

Due diligence provides information, knowledge and experience to the acquirer. It contributes a decision-making process as well as planning and execution of the strategy of the acquisition. (Blomquist et al. 1997, 9.) In order to conduct due diligence successfully and making use of experts it is important to keep overall objectives of due diligence in mind. Therefore due diligence is useful in four ways according to Howson: an aid for identifying potential problems, a supplement to the legal protection against liabilities, an aid to ensure a successful transaction and a supplement of reliable data. (Howson 2008, 1). The starting point for the planning and execution of due diligence is the obligation for assessing the target company before making the deal. The obligation of the buyer to assess the target refers to an obligation to examine the target company as

thoroughly as would be made by a person with sufficient knowledge of the specific industry decisions after careful consideration. On the other hand, the buyer that has neglected its obligation is responsible for any possible mistakes that can occur after signing the deal taking into consideration that they are mistakes that the acquirer should have known after examining the target. (Blomquist et al. 2001, 14 - 15.)

The base for planning and execution of due diligence is to define whether the target is a company purchase or a business buy-out. When it is question of a company purchase, it is referred to as buying shares (issued shares) and the business buy-out is referred as purchasing assets (premises, machinery or business and goodwill). The strategic structure of the deal determines the substance of the acquisition process and what issues to consider. Idealistic, the due diligence is completed before the parties turn their attention to sales and purchase documents. However, in reality the pressure of timing militates against it. (Reuvid, 2007, 164.) It is vital to examine the state of the target company in order to discover exactly what the buyer has got itself involved with. Those companies, that have decided to use due diligence as a help in the decision-making process have made the right solution to execute the acquisition process. (Boeh - Beamish 2007, 104 -105.) Unfortunately, statistics show that acquirers make the same mistakes continuously not focusing enough on planning and are distracted by financial figures over other issues.

The process of due diligence is different if the target is a publicly or privately held company. Too often companies rely on the mandatory public information that is specially designed to serve the shareholders' interest about the target company, and therefore let others as the seller do the work. The problem is that after sealing the deal, the acquirer is left alone. In the case of privately held companies, acquirer has the access to the information before and after signing the deal and therefore the acquirer has not other alternative than seeking information itself. (Clements 2000, 13.) In addition the process of due diligence is different based on the nature of the acquirer. The situation and the position of the acquirer are vital factors when choosing an input. Financial investor is positioned differently than an industrial buyer. Financial investor is more concern about the adequacy and securing of the finance while industrial buyer concentrates on strategically important questions. Financial investor uses external advisors nearly every time due to the lack of knowhow where as industrial buyer can outsource some areas to it to conduct. The case is also different if it is a question of an international acquirer. Cultural and legal issues stand out as important areas of investigation due to that there are different customs and procedures that necessarily do not fit the other company's values. In addition an experienced buyer tries to perform an acquisition according to a certain, efficiently proven concept. (Blomquist et al. 2001, 32.)

Acquisitions and due diligence- processes are always different in each case.

Therefore it is vital to plan how the due diligence- process will be constructed. (Howson 2003, 14.) Pre-acquisition due diligence should be constructed as risk minimizing as possible from start into post-deal implementation. It is stated that there is no substitution for early post-deal planning. (Howson 2003, 6.) Even if there are several repeating phases in the process of acquisition, it is not a specifically defined series of procedures. Interaction is one of the key elements in the due diligence process. There should be taken into consideration the fact that each phase of the process can be differently emphasized in different situations. Therefore when every acquisition process is unique, the process of due diligence has to be adapted to answer the demand. Often the areas of due diligence are divided to business, legal, financial, tax and other areas of due diligence. (Blomquist et al. 2001, 25.) They are to be explained better in the next chapter 2.5. In addition there exist a vendor due diligence. The seller company arranges a “data-room” where potential buyer candidates have an opportunity to get to know the material prepared by the seller and the due diligence is therefore conducted by the demand of the vendor. (Blomquist et al. 2001, 30.) The area of vendor due diligence is also more closely observed in the chapter 2.5.

Usually an experienced acquirer attends to solve next general issues before signing the deal: target fit to the company strategy, commercial and technical preconditions, reasonable price and risks involving to the transaction. If the buyer will proceed in the acquisition process, the structural questions in the deal are vital to evaluate. (Blomquist et al. 2001, 26.) There are certain aims that have to be clarified regardless of the target company. It is possible to identify and analyze the principals of the acquisition. The principals of an acquisition are things that can destroy, affect the price, structure and contract of the deal, or things that are remarkable to notice after the deal. (Blomquist et al. 2001, 19.)

It is to decide when and at what stage due diligence will be connected to the acquisition. This can happen at different stages of the acquisition. However, it is difficult to define the beginning and the end of the due diligence- process. The nature of the process changes according to at what stage due diligence is brought to the picture. (Blomquist et al. 1997, 11 - 12.) Rather than just viewing the whole process, the process can be described as chain of different activities interacting with each other and examined from different perspectives (Blomquist et al. 2001, 25). The process of the due diligence can be described by following figure emphasizing the interaction through the whole process and it is a simplified description of the whole process:

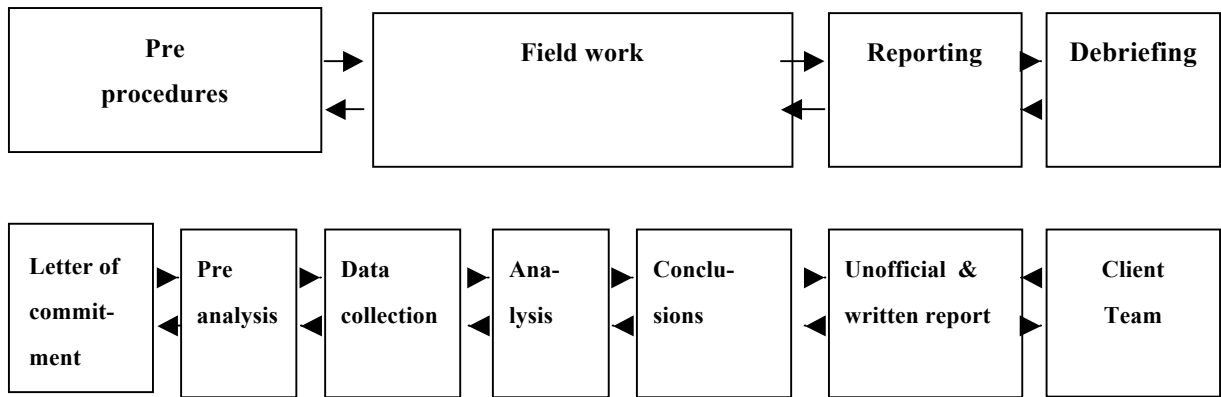


Figure 1: Due diligence process (Blomquist et al. 2001, 25.)

Figure 1 indicates the process of the due diligence by Blomquist et al. (2001), and is introducing actual phases of a due diligence process. It is merely an example of the process since due diligence is unique in each case. The description of due diligence process gives an insight what kind of the process the advisory services face when conducting due diligence behalf of the acquirer. However, there are some phases of the process that are generally similar for all and are explained next briefly. (Bäck et al. 2009, 39 - 58). The researcher is modifying the literature of Bäck et al. (2009), preferring to explain due diligence phases in the process described by Blomquist et al. (2001) through a more specific and updated version.

The phases of due diligence process, (Blomquist et al. 2001, 25) ;
(Bäck et al. 2009, 39 – 58.)

1. Letter of commitment
2. Preparing of the due diligence
3. Data collection and analysis
4. Reporting
5. Debriefing

Letter of commitment: The process starts with cooperation with the seller after signing the letter of commitment or the actual deal. The letter of commitment expresses a sign of commitment that the buyer is ready to perform the acquisition. In addition the letter of commitment involves general rules and possible practicalities of the deal. The briefing negotiations are the best way to go through practicalities with cooperative

mindset. Agreement is to be accomplished in detail what information the buyer would like to have about the process such as accuracy and depth of the target information, interview possibilities in the target company as well as other stakeholders such as clients and suppliers, areas allowed to visit in the company, possible data-room set-ups and the timeframe of due diligence. (Bäck et al. 2009, 39 - 42.)

Preparing of the due diligence: "Kick-of meeting" is arranged at the beginning of the actual process inside the buyer company. All the preparing parties are invited to discuss about preparing procedures and share of responsibilities. The acquirer prioritizes the due diligence areas according to their importance and hires the best possible advisors to conduct due diligence to ensure versatile and comprehensive outlook into the process. If the acquirer lacks experience in of preparing the deal it is recommended to hire outsourced advisors. (Bäck et al. 2009, 43.) The best way to the acquirer to start the due diligence process is to define what due diligence means and answer preliminary questions about what kind of process it should be. Acquirer conducting a buyer due diligence is a starting point for the whole due diligence process. It involves simple answers to obvious questions about what is the acquisition strategy, how does it fit to acquirer's strategy and how the pre planning is to be constructed. (Howson 2003, 14.); (Howson 2008, 5.)

Data collection and analysis: Availability of information material depends largely on the fact if the seller is private or public company. Desktop research is based entirely on collecting and analysing public information from public sources as commercial databases. No access due diligence is a situation where the seller has provided only limited amount of information and therefore sets a problem for the acquirer. Data room due diligence is an assembly of the information given by the seller in a one place where the acquirer can go and see the information provided. Limited access, on the other hand, involves a limited access to discuss with the personnel or the executives of the seller company. Full access means that the seller gives the buyer free hands to conduct a due diligence in the company, which in this case scenario would be the best alternative for the acquirer. However, it is not even possible to go through every aspect of information in the set time line. (Bäck et al. 2009, 34 - 38.)

Analysing the information is a stage where procedures vary. There are criteria set to be evaluated the significance of the information. The due diligence team conducts filtering of the information, clarifying it and testing their hypothesis. It would be an asset to be able to interview the seller's side to cover the holes and make sense of the information. External advisors provide their objective opinion about the conclusions of the analysis and therefore give solutions to the challenges that have come to fore. (Bäck et al. 2009, 54.)

Conclusions are drawn at the end of the analysing phase. The due diligence team make conclusions that are based on their own research and trustworthiness of the information. Emphasis is on finding unknown risks and uncertainty factors. The buyer

formation. Emphasis is on finding unknown risks and uncertainty factors. The buyer makes the decision what information is useful for different purposes and what information can be given to the seller. (Bäck et al. 2009, 54 - 55.)

Reporting: It is to be agreed when to report persons in responsible of the proceedings of the due diligence work and relevant observations and findings that have emerged during the process. (Bäck et al. 2009, 55 - 56.) Execution of due diligence provides a timeframe for the whole acquisition process. Reporting is conducted in written or orally. The execution, content and timeframe of the reporting are important to consider. Reporting material is meant only to the buyer to read. However, the report is often given to other expert groups involved in the project in order to have easy accesses to the information during the project and avoid overlaps. Typically a report includes a letter of presentation, executive summary, due diligence-report and attachments. Finally the results are to be presented and shared to the client (Blomquist et al. 2001, 45 - 46). Due diligence reports are extremely confidential and they are shared with consideration inside the buyer company. External advisors usually have their own form of standard report that is tailored to match principals' needs. (Bäck et al. 2009, 56 - 57.)

Debriefing or continuous procedures: All deal breakers such as issues that affect price, contract, acquiring or integrating are to be shared with the principal in order to take immediate action concerning the deal. Integrating plans are created or deal is cancelled and the team is adjourned. (Bäck et al. 2009, 57 - 58.) The aim is to be able to define the value and profitability of the target company as well as the profitability of investment. Few key questions should be answered concerning valuation of the target company: pros and cons of the acquisition and possible price of cancelling the deal. Especially the last aspect is important. It is required determination to break off the deal if the target company does not meet the requirements of the acquirer. It may be difficult if the deal is seen as a relatively hoped conclusion. Ultimately a good due diligence tests the capacity and effectiveness of the management to make decisions regardless of their nature. (Cullinan, Le Roux & Weddigen 2004, 92 - 99.)

The scope of the due diligence process varies. At its minimum the process includes analysing financial information and discussions with the executives of the target company. At its maximum the process is extended to examination of different dimensions and analysing them. The scope of the process depends on the size of the target company, relevant meaning to the potential buyer, price, availability of the information, acquired certainty, history of the target company and the seller, evaluated risks of the deal, time schedule of the process, needs of the buyer, structure of the planned transaction whether it is question of acquiring shares or the whole business and whether of performing initial or formal due diligence. (Blomquist et al. 2001, 52 - 53); (Bäck et al. 2009, 59 - 60.) The buyer determines the scope of the process. The buyer can be divided into institutional or capital investors. Institutional buyer is interested on

due diligence as a tool to raise the value of the company to attach the target company to their own business while investors are concerned with raising the value of their money. Therefore the due diligence process is conducted at its minimum and simplicity when the question of a pure investment decision. Industrial buyer, on the other hand, has a greater interest to conduct a larger process. In addition the size of the target company affects the scope of the process. If the acquirer is dealing first time with a particular industry, the vast due diligence process is recommended. Acquiring a business is involves less work than acquiring the whole company. Buying shares is, more or less, buying the whole history with its skeletons. The financing of the acquisition also affects the scope of the due diligence. Industrial buyer is not in a rush to get the invested money back so it has an opportunity to leave out some areas of investigation, on the contrary of investor who is interested on future cash-flows due to that the acquisition is mainly financed with debt, loans. The other factors that affect the scope of the deal are discussed further in the chapter 2.5 that concern to which extent the due diligence process is conducted and what areas are to be investigated (Bäck et al. 2009, 60.)

Ultimately due diligence process cannot be done by the book. According to Clements it must become a mindset. Questions are to be asked constantly throughout the process. All companies regardless of the size need to build effective acquisition plan, clear business strategy, thorough due diligence and well-planned integration phase. (Clements 2000, 15.) Building the structure of due diligence should be done accordingly requirements of every transaction in addition to aspirations of the client (Reuvid 2007, 102.)

2.4 Experts used in acquisition

According to Howson (2008, 7), selecting and working with advisors is the second stage of the due diligence after pre due diligence. Use of experts in an acquisition process involves deciding on the process and what kind of investigation is to be conducted, discussing about the key findings, and briefing with them about the results as well as the outcome. (Howson 2008, 7-10) Advisors are used mainly for two purposes in acquisitions: target search and conducting due diligence which are described here as advisors' contribution. There are also two kinds of experts used: internal and external. Internal advisors are hired advisors who work inside, for the company and external advisors are those that are outsourced to deliver their expertise for a particular project. (Angwin - Savill 1997, 431.) The following reasons explain the need of experts in conducting due diligence. First, it is easier to detect problems occurring in the acquisition. Second, due diligence provides security for the whole deal. Due diligence is more economical to be completed properly compared to that problems

occur after the deal if due diligence has been neglected or improperly done. Third, knowledge is power therefore that due diligence provides important information of the target company. The more it is possible to acquirer information about the target company prior to the deal, the better the buyer has prepared for the acquisition. (Howson 2003, 7 - 8.)

2.4.1 Advisors' contribution

Internal and external advisors are used in target search and due diligence in acquisitions. Angwin and Savill (1997) made a distinction between internal and external advisors and to what extension advisors act in four areas of due diligence: Financial, commercial, management and systems.

Table 2: Internal and external sources of due diligence advice (Angwin - Savill 1997, 431).

	Internal %	External %	Combined %
Financial	40	29	31
Commercial	72	14	14
Management	68	12	19
Systems	52	35	13

All areas were undertaken internally, but areas where external advisors play an important role are financial and systems due diligence. In contrast, commercial and management due diligence are conducted more internally. In addition, Angwin - Savill have done research about the distribution of advisors in different areas of due diligence. The dominance of the international accounting firms is clear as outsourced advisory services in due diligence. They are used mostly in systems and financial areas of due diligence. Strategy houses are used mostly in commercial due diligence but international accounting firms still have the most hired advisors. (Angwin - Savill 1997, 431.) Therefore, this study uses external international accounting firms in empiric research design in order to answer the research questions.

Outsourcing advisory services helps an organization to make decisions about an acquisition and provide external knowhow. Modern organizations are expected to outsource the latest expert knowledge in different areas and thus demonstrate even world-class expertise by carrying it out. (Furusten - Werr 2005, 7.) The use of advisors is "make or buy" decision, wanting an analysis of the strategic importance of a service, the organizational capabilities in the area of needed. The main reasons for using advisors are a deficiency in knowledge or resources of the manager in an organization.

(Furusten - Werr 2005, 92; Huttunen 2003, 18.) There exists a need for outside perspective, knowhow and thinking outside the box, in other words looking for extraordinary solutions that the acquirer cannot think of its own. (Huttunen 2003, 18.) In addition there is oversupply of information in the markets. It takes time to acquire necessary information in time. Therefore information has to be organized efficiently. (Huttunen 2003, 9.) Outsourced experts are therefore a reasonable solution when it is question of organizing information and handling knowledge. Knowledge and expertise play important part in an acquisition process when advisory teams are conducting due diligence on the behalf of the buyer. There are two types of knowledge: explicit and tacit knowledge. Tacit knowledge involves action and individuals' commitment to a particular context. It partly consists of technical skills and on the other hand informal, indefinable skills. These skills can be referred as knowhow. Knowledge can be taught but often knowledge never becomes explicit. (Nonaka 2007, 165.) According to Huttunen (2003, 130 - 131), there are four kinds of knowledge that expert uses: theoretical knowledge, tacit knowledge, intuition knowledge and principle knowledge. Theoretical knowledge is defined as book knowledge, in other words somebody else has proven the theory that expert uses. Tacit knowledge is personal information that is constructed gradually and it is easy to utilize. Intuition knowledge is experts' own vision and other people can easily question its dependability. Principle knowledge concerns professional official and unofficial basic principles and rules that an expert follows in its profession.

In addition experience educates advisors to become good experts. It is vital to learn to take into consideration different perspectives by following expert's own instinct or using its tacit knowledge. Therefore experts' work can be easy to execute but at the same time it is creative, efficient and solution seeking. (Huttunen 2003, 58.) The latest trend of knowledge is to notice its importance as a competitive advantage (Argote - Ingram 2000, 155.) The advisors have the knowhow to transfer knowledge from a company to another. This can be regarded as a competitive advantage if having previous knowhow of the due diligence process, target company or acquirer. Creating knowledge about a particular branch is necessary in order to pass on extra value and helps the advisor to understand the organization better. (Huttunen 2003, 132.) However, an expert also needs the ability to solve the issue of understanding the solution to a problem. An advisor has the responsibility of helping the client when it does not know what it wants and what is the best alternative in a certain situation. (Huttunen 2003, 130.) In other words the professionals usually see beyond problems what the client sees (Maister, Green & Galford 2000, 28.) Advisors also have the ability to coordinate and execute organizational change. They are valued for their drive and ability to make things happen in an organization. This implies to their analytical and presentational skills. (Furusten - Werr 2005, 95.) Skills also imply good judgment. Good judgments

consisted of expertise and experience. Therefore not anyone can provide reliable information. It is very difficult to ensure that adequate due diligence and planning have taken place without bringing in external resources to aid in the process due to that the process is time and resource consuming. Therefore external advisors are expected to be able to execute the process in a tight schedule. In addition it is more comforting to use external professionals. Buyer can therefore rely on the expertise of the advisor alone and do not have to worry possible details that it could miss during the investigation. (Howson 2003, 30.)

When it is question of an international acquirer, advisors are often needed to build the common bridge between the parties. Therefore it is highly recommendable to use outsourced advisors to get acquainted to the customs of the country of the target company. Not only cultural but also language and legal differences should be looked into when it is question of cross boarder acquisition. Therefore hired advisors are a good solution due to their wide experience of international acquisitions. (Blomquist et al. 2001, 32.)

For number of reasons it is suggested usually preferable to turn to big bureaux. Here it is suggested due to the following reasons; only big bureaux have the resources to execute due diligence- process in a tight schedule, they have enough knowhow to go through all the areas of due diligence, it is better to use credible source that has knowledgeable knowhow in due diligence and they often have better experience from acquisitions. (Blomquist et al. 1997, 27). The researcher has taken smaller and bigger advisory services into consideration and interviewed different scope advisory companies in the empiric part of the research. However, this study less interested of the size of advisory services, small or big companies as external help, but rather more interested about their area of expertise. It is cheaper to buy than make or produce the service by its own with internal resources. Therefore markets are a suitable place to buy expertise (Furusten - Werr 2005, 9). However, the use of advisors is based on acquirers' experience. Experienced acquirers tend to use more due diligence but have lower expectations to external advisors and their findings. Inexperienced acquires have high expectations and they believe that advisory services conducting due diligence offers more than assurance. (Angwin - Savett 1997, 433.) There are several advisory services to choose from if the objective is to conduct due diligence. The outsourced experts that are use to conducting complicated tasks as for example due diligence have developed procedurals and routines that help the acquirers. This experience is offered to the buyer that builds the needed trust and implies to the buyer that transaction can be brought by experts from start to finish. (Blomquist et al. 2001, 33.) These licensed experts are trusted to deliver the best knowledge there exists (Furusten - Werr 2005, 9.)

It is an everyday challenge for an advisory service company to offer the best possible service that fulfils the client's needs. According to Huttunen (2003, 159) an advisory service's product, the service it provides, can be described as following:

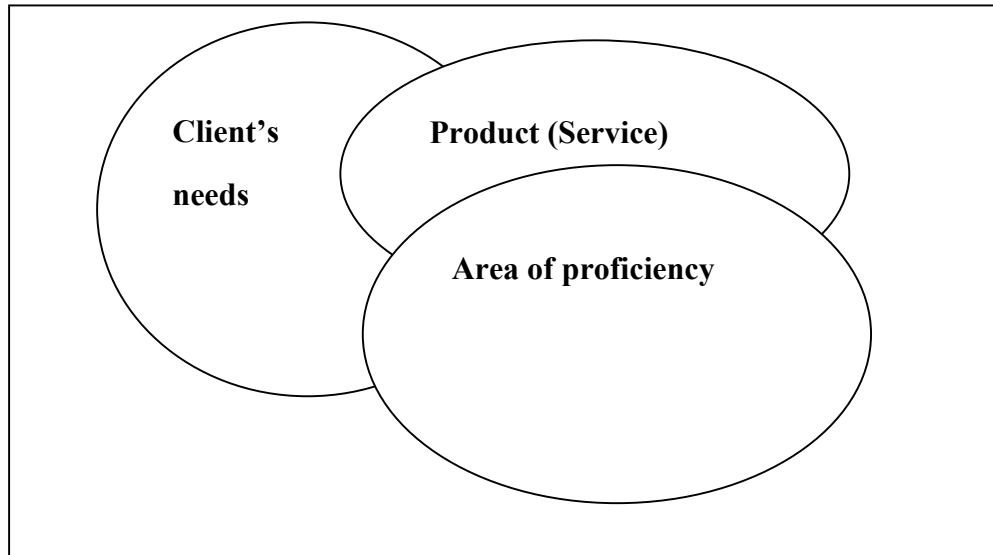


Figure 2: Client's needs, product and proficiency of an expert (Huttunen 2003, 159).

The logic of the figure 2 is that all circles must have as much overlapping surface as possible. The larger surface the circles have, and the more the circles overlap each other, in other words, the more clients' needs, the product and the proficiency of the expert correspond each other. When giving advice, the client's needs and problems are unique. An expert needs to tailor the service to correspond the needs to each client separately. Therefore the product, a service an expert is providing has to correspond with the area of expertise of the advisor and clients needs. This means that the proficiency of an expert has to be vast and more versatile than acquirer carrying out the service by its own. (Huttunen 2003, 158 - 159.)

2.4.2 Managing advisers

Advisors are not making decisions behalf of the acquirer but rather giving advice how to proceed in the acquisition process. It is vital to brief advisors thoroughly throughout the process. According to Howson, briefing advisors is the most important part of managing due diligence. The principal controls the process and ultimately makes decisions. However, there should be set realistic demands on advisors. (Howson 2003, 31.) The key considerations for the due diligence team are who, what, where, when, how and why. In other words everything relevant must be examined. When appointing external

advisors, they need to be clear about the buyer's reasons behind the deal, the acquirer's as well as the seller's business. (Reuvid 2007, 103.)

There are few things to consider when outsourcing experts. When starting to co-operate with outsourced advisors, there are several issues that they need to know before getting into the process itself such as if there are other advisors working on the deal, what are their tasks and what areas they are focusing on including which areas the acquirer itself is involved in. It is important to know acceptable risks and limits, to what extent the advisors are conducting the due diligence and to which extent they have to report. Informing about industry risks is vital due to that industry facts are a significant factor how to conduct an investigation. The key issues should be covered at the early stage sorting out relevant and irrelevant information. It is important to know what the acquirer expects from the advisor. Exact details and questions ease the advisors' work in order to provide best possible service to the principal. Last but not least, it is vital to know the timetable for the deal and conducting due diligence. (Howson 2003, 32.)

Usually the acquirer and the advisors sign a written contract, an engagement letter that is a form-free contract expressing the commitment of the expert to the principal. This is a well-grounded method due to that the due diligence process lacks general norms. The form of the contract involves the parties, the goal and mission, scope of engagement, restrictions, availability of information, concealment, reporting, schedule of the deal, a cost evaluation, limitations of responsibility, the modification and approval of the contract. In addition the acquirer prefers to carry out a checklist where all the issues are listed that the buyer wants to go through with the advisors. (Blomquist et al. 1997, 34.) Experts follow certain standard terms. These terms include restrictions made by experts not taking responsibility that the assessment is made according to the buyer. The contract can include a comment about that the experts do not have liability of damages that hurt the deal, despite of the fact if the accident has occurred intentionally from the experts' part. However, the experts are always expected to follow ethical norms when practicing their field of expertise. (Blomquist et al. 2001, 44 - 45.) In addition the buyer has an obligation to give detailed information about what the acquirer wants to include into the assessment. A letter of engagement is a concrete place to include the information requested. If experts cannot implement buyers request due to professional or other reasons, they are obligated to announce the reason and reach for the next best thing that the buyer is after. This is important due to that the acquirer will have reasonable expectations about experts who conduct the due diligence. (Blomquist et al. 2001, 40.) The basis for the advisor and the client relationship are the needs that are constructed by the acquirer. (Furusten – Werr: Hellman 2005, 148). In this case the acquirer. The bases of the needs are the security and trust towards the ability of advisory services to provide legitimacy and superior knowledge solving emerging problems and identifying later problems. (Furusten – Werr: Hellman 2005, 148).

To ensure the best outcome, it is suggested to make advisory team to work together instead of working individually. Synergy benefits are created and all the advisors are aware what everyone is doing in the team, avoiding task overlapping in the due diligence process. (Howson 2003, 32.)

2.5 Dimensions of due diligence

Due diligence at its maximum consists of examining different areas of due diligence. The dimensions are examined by different experts providing a vast report to the buyer. This supports acquirer with the acquisition decision.

The dimensions of due diligence traditionally are business, financial, legal and tax due diligence. Due diligence is generally divided into four dimensions mentioned above (Blomquist et al. 1997, 21) ; (Blomquist et al. 2001, 26), even though there may be some overlapping elements. However, this study focuses on the core areas to provide more simple structure for the reader to follow and therefore some additional areas of due diligence are connected to the traditional dimensions. According to Angwin - Savill (1997) commercial and management due diligence are separated from business due diligence. This research has linked commercial, managerial to business due diligence and environmental, systems and IT-dimensions to other areas of due diligence that are sometimes discussed separately. Tax due diligence is a separate dimension due to its importance in due diligence in advisory services even though it is similar to and overlapping partly financial dimension. This research has also taken vendor due diligence to consideration where the initiative to conduct due diligence is done the seller. It is introduced in this study therefore that vendor due diligence also has an impact to the acquirer's acquisition process.

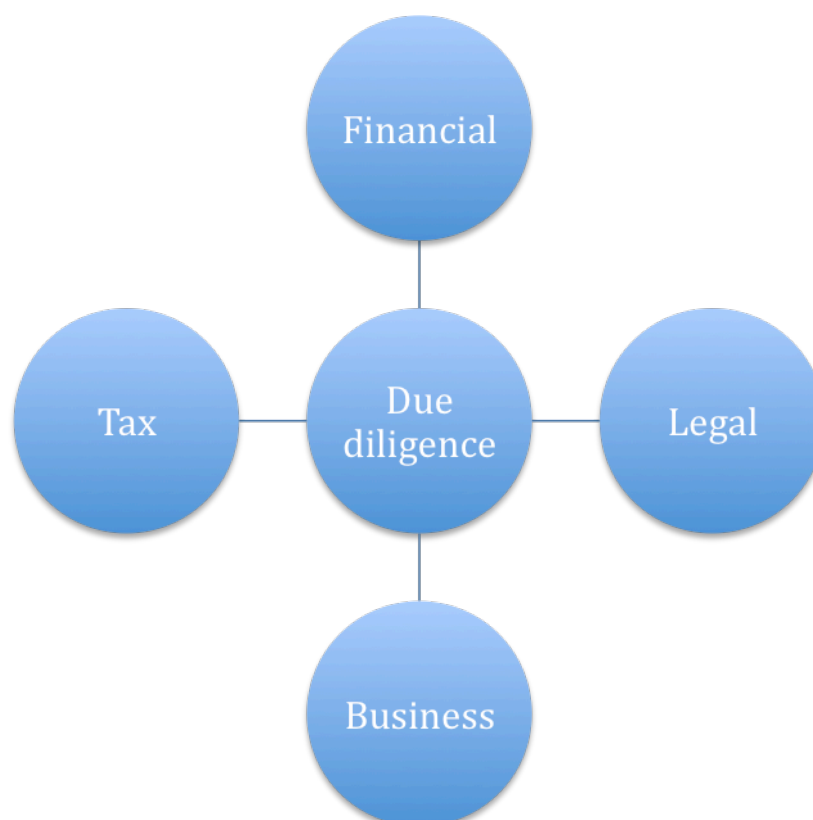


Figure 3 Dimensions of due diligence

Financial, legal, tax and business dimensions are often the core of due diligence process due to that they are partly mandatory according to law to conduct even though the application of due diligence itself is not. In addition there is a general perception that these areas are the most important dimensions of due diligence. Most of the acquirers conduct financial, legal and business due diligence but only one third of them extends the evaluation process into other inner organisational dimensions. In addition most of voluntary inner audits are superficial. (Lees 2007, 95.) Voluntary audits are considered as part of business and other areas of due diligence in this research.

2.5.1 Financial due diligence

Financial due diligence (FDD) is dealing with the main financial risks and opportunities, along with an assessment of those risks materializing costs and what kind of warranties should be negotiated. (Howson 2008, 31.) Some argue that financial due diligence overlaps with business due diligence. Hence, this is partially true, the differences are that financial focus is internal in contrast to business focus, where the interest of business due diligence is on the future, while financial due diligence is more

or less interested in the past. (Howson 2003, 84.) Financial due diligence diminishes the profit losses and surprises that can occur in acquisitions (Blomquist et al. 1997, 53). Usually the acquirer has an opportunity to go through information that the vendor has selected to publish about the target company. In order to make a proper offer, it needs to evaluate the financial condition of the target company. The aims of FDD are verifying the numbers where the offer is based on, identifying deal breakers as undervaluation of assets and liabilities, to help in negotiations by challenging forecasts, highlighting risks and discussing about possible need of warranties and indemnities and giving confidence in the light of financial performance and future prospects. (Howson 2003, 46.) Its purpose is to examine carefully financial information meaning that only published information by the seller is not enough therefore that the seller tries to present its company as good condition as possible. A deep investigation of financial figures and information it provides are a good base for the future business. It expresses what the numbers in audits mean and how they have been formed. (Howson 2003, 46 - 48).

The mission of financial due diligence is to estimate if the price of the acquisition is realistic and equivalent otherwise according to other requirements of the acquirer. Overall FDD provides information of financial entity of the target company, its rights, responsibilities and formation of profit. (Blomquist et al. 1997, 54.) Depending on if it is question of initial due diligence or formal due diligence, general areas of inspection of financial dimension are the same and the most significant difference concerns that the initial due diligence relies on public financial information where as formal due diligence includes more specific information behind the financial numbers. The formal due diligence usually requires external help of advisory services which are accountants and tax & law advisors. (Blomquist et al. 2001, 51.) It is stated that in its minimum, the due diligence covers analysing the financial information. Financial due diligence process includes going through financial and balance sheet information keeping eye on tax information if there are any problems concerning to the planned transaction. This is done by examining target company's history, principles and procedures of book keeping and taxation.

Due to its importance, the need of experts must be recognized in FDD. First of all, the acquirer lies heavily on the information provided by the vendor. The chosen FDD team has to cooperate tightly with the target company and be able to require list of detailed questions about the financial state of the target (Howson 2003, 64.) The importance of financial due diligence is based on that if everything is financially in order with the target company, and therefore it is not necessary perhaps to conduct a large scope due diligence. (Blomquist et al. 2001, 53 - 54.)

2.5.2 *Legal due diligence*

The legal due diligence is one of the central dimensions of due diligence. Similar to financial due diligence, it deals with the main legal risks and opportunities in finalizing the deal from the buyer's commercial point of view, along with an assessment of the likelihood of those risks materializing and negotiating of warranties. (Howson 2008, 45). The juridical actions create the base for the agreement made in the acquisition conducted by advocates or other lawyers. (Howson 2003, 68). It is vital to notice the importance of legal due diligence. Everything effects everything in the process of due diligence. Especially it is critical to be familiar with different juridical documents in the acquisition. A special attention should be paid into responsibilities and risks of each party in the form of deals, warranties and insurances. (Blomquist et al. 2001, 10.) Legal due diligence and juridical advisors concentrate on possible problems occurring in the acquisition, content of documents and remodelling them. (Sherman 2005, 64). In addition overall legal due diligence covers the juridical and business condition of the target, and their connections to the parties of the agreement. (Blomquist et al. 2001, 35). The main objectives are to uncover potential liabilities, find legal or contractual obstacles and form the basis for the deal. (Howson 2003, 80). In order to conduct a legal due diligence, a proper legal check list is made and tailored to according the target company. The content of the check list depends on whether the execution of the checklist is done by the demand of the buyer or seller, the target is public or private owned company, what is being acquired and to which extent the due diligence process is intended to conduct. (Blomquist et al. 2001, 83.)

2.5.3 *Business due diligence*

There are two alternative names for this form of due diligence. It can be referred as commercial due diligence (CDD) or it can be referred as business due diligence. Howson, on the other hand, has separated commercial, human resources, pensions, management due diligence as their own areas (Howson 2008, 55). Due to the theoretical and empirical structure of this study, it is more reasonable to combine those in business due diligence. Therefore each of them are discussed briefly as parts of the business due diligence.

Business due diligence is conducted in order to evaluate the business conditions of the target company. The success of the acquisitions often depends on due to whether this area of due diligence is properly conducted therefore that target company should be equivalent strategically that motivates the acquirer to buy the target company (Blomquist et al. 1997, 21.) The possible profitable business is a motivation to the

acquirer giving less interest into the historical information of the target company. Unlike other dimensions of due diligence, the business due diligence is only interested in future planning of the business using information from outside of the company such as markets. (Howson 2003, 77.) The focus is on different market forces such as competitive positions, company's markets and their future prospects. There are three basic aims for the business due diligence: reduction of risk, valuation and plan integration. Ideally aim is to be strategic and give comfort that the deal actually is successful. Many acquisitions are completed for wrong reasons that reflect as high failure rates. Therefore strategic tools are needed. (Howson 2003, 89.) It is common to use own experts in business due diligence as management but in addition the acquirer company can hire outsourced advisors, consultants and engineers depending on the nature of the due diligence. (Blomquist et al. 2001, 27.)

In addition findings show that conventional due diligence has neglected two key soft due diligence factors such as cultural and human resource integration by concentrating on financial and strategic aspects. Human resource issues are considered only when financial and legal matters are conducted first. Ignoring these issues may have long-term costs and lead to unsuccessful deals. According to a South-African study four of five case studies need more importance applied to soft due diligence assessment, especially to HR and cultural issues. (Horwiz, Anderssen, Bezuidenhout, Cohen, Kirsten, Mosoeunyane, Smith, Thole & Van Heerden 2002, 1-3).

2.5.4 Tax due diligence

Tax due diligence estimates profitability and value in the base of the target company's tax in order to be able to estimate the risks and opportunities of the acquisition. Tax due diligence is linked closely to juridical and financial processes. It is a central part of the process due to its complexity. (Howson 2008, 101 ; Howson 2003, 148). The bigger the deal or the more international is the acquisition the greater complexity with the tax issues. (Howson 2003, 163). In addition tax due diligence is concerned about the elements of the target company when negotiating about the deal and planning the structure of the deal. The investigation of tax issues is vital due to single reason that receiving information about tax cost, the buyer can form a picture of real cost structure therefore that tax costs consist the largest part of cost structure of the target company. There can be separated three parts in tax due diligence: preparing phase, field phase and report phase. In the preparing phase execution agreements are made, collecting of tax information and mapping of the target company. Secondly, the field phase of getting to know with the collected material is essential in addition to making interviews for the representatives of the target company. Finally, information is being analyzed in

reporting phase and it is time to draft a written tax due diligence report. To conduct tax due diligence successfully, the acquirer needs tax advice regardless of the size of the deal. (Blomquist et al. 2001, 87 - 91.)

2.5.5 Other areas of due diligence

The literature (Howson 2003; Howson 2008; Lees 2001) separates environment, IT and technical due diligence as their own areas of investigation. In addition there are presented many auditing targets as insurance-, intellectual property risks, merger control filling requirements and anti-trust risks. However, only environmental, IT and technical are taken as part of the investigation in this research due to eliminating single risks and connecting them into larger area of due diligence and introducing therefore the traditional areas of due diligence.

In IT- due diligence, the aim of inspection is the influence of the technological environment of the target company. Things that concern IT- due diligence are for example if the technology of the target company is compatible with the acquirer company and its strategy. (Pack 2002, 178.) In addition to compatibility of technologies, IT – due diligence includes technical challenges at management level and conducting an inspection of strategic tools in order to define the technological level of the organization. Therefore IT- due diligence concerns systems and people in the organization using technical equipment. They both are vital and strategic part of organization giving competitive advantage to a company. (Howson 2003, 185.)

Environment laws and regulations have existed a long time but not until recently they have become more obligatory to conduct. Therefore environmental dimension is more often connected to due diligence process. (Howson 2003, 165.) As other areas of due diligence, there is used advisors conducting the environmental due diligence. These experts have usually had technical education. (Blomquist et al. 2001, 29). There are two main dilemmas in environmental due diligence: identifying and controlling environmental risks in addition to following environmental obligations. In addition to investigating risks and obligations of company's ethical and social responsibility are being evaluated that takes considerable amount of time. Therefore environmental due diligence is also worth of taking into due diligence-process. (Howson 2003, 165 - 166.)

2.5.6 Vendor due diligence

The focus of the literature has been on the buyer's perspective. In addition there exist an area of due diligence that is conducted on the demand of a vendor, the seller.

The process is set up differently than buyers' due diligence. The acquisition has been arranged that candidates are being searched through an offer procedure. This is held in a data-room where the potential acquirers can familiarize to the material prepared by the vendor. A data-room is set up in a particular time where there is a chance to interview the executives, representatives of the vendor company. Therefore that the procedure is strictly under the control of the vendor, the area of due diligence is named as a vendor due diligence. When the final acquirer candidate is chosen, the buyer performs following completing due diligence procedures. This phase of the vendor due diligence is familiar to the acquirer's due diligence process. (Blomquist et al. 2001, 29 - 30.) A vendor uses outsourced advisors as in the previous described dimensions of due diligence, often the vendor is seeking help with an investment bank and corporate finance advisors to perform as deal management advisors from the beginning to the end of the process (Blomquist et al. 2001, 33). As mentioned earlier in the introduction, the buyer has also an independent responsibility to conduct an own investigation about the company and can provide its own due diligence of target when it is chosen for the buyer candidate where the vendor due diligence is the starting point for the buyers due diligence. (Blomquist et al. 2001, 29 - 30.) This area is taken into the research to present a wider understanding of due diligence to the reader describing the possible extent of the process.

2.6 The challenges of due diligence in acquisitions

While the acquisitions are always unique as a process, there are similar threats and challenges that run through the most (Reuvid 2007, 163). Previously it is mentioned that in 1997 fewer than 20 % of mergers & acquisitions fail to achieve desired objectives. There are many reasons why this is statistically true. To mention few factors for failing: paying the wrong price, buying for the wrong reason, selecting wrong partner or buying at the wrong time. In addition the importance of post-merger integration process was already noticed. (Marks 1997, 267.)

2.6.1 Challenges in stages

Acquisition process can be divided into three stages: planning, execution and integration (Immonen 2008, 27). Simplifying the acquisition process, it is easier to detect the issues that affect due diligence process. Planning being partially done, meaning that if the target selection has been made, and execution follows the first due diligence process phase, can it be defined as pre-acquisition phase. Therefore next

acquirer is concerned with integration. In the three stage process of due diligence, there can be distinguished (table 3) a pre-acquisition phase, an integration phase and a post-acquisition phase. (Lovallo, Vigurie, Uhlaner & Horn 2007, 95.)

Table 3: Problems and suggestions of due diligence-process (Lovallo et al. 2007, 95).

PROCESS PHASE	PROBLEMS	SUGGESTIONS
Pre-acquisition phase	Precontract Overestimating synergies Organization culture Unsufficient planning Conflicting objectives	Identifying risks Comparing the deals Personnel due diligence Estimation of resources Using advisory services
Integration phase	Defining the deal price	Setting the marginal price
Post-acquisition phase	Preconceptions Expences	Outsourcing employees Backup-plan

Table 3 describes the challenges of due diligence- process at different stages of the process. There can be clearly seen the significance of the pre-acquisition phase, including the need for outsourced advisors in the post-acquisition phase and the importance of problem solving ability in favour of the whole process.

2.6.2 *Pre-contract*

Strategy of the acquisition defines the structure of pre acquisition phase and dictates what kind of challenges the acquirer face during the process. Whether the structure is asset or share based, the consequences are mainly from tax and commercial perspective. At this point the interests can differ between the acquirer and the seller. (Reuvid 2007, 164.) The goal of pre-stage of the acquisition is writing a pre-contract in order to get an agreement about the acquisition. This challenge concerns the seller especially due to that it wants to make the deal fast at best possible price. Therefore the buyer's attention can be distracted. Instead of evaluating the profitability of the deal, the buyer's attention concentrates on making the pre-contract. In this case many important issues can be overlooked. When the pre-contract is signed, the buyer has to make a thorough evaluation about the target company before commitment to the final deal. The buyers usually examine possible weaknesses of the deal at some point of the acquisition but not

as carefully as in the beginning. It is a common problem that the buyer does not make a sufficient evaluation of the company acquired which is required at early stage. This is recommended due to that the buyer company has critical information about the acquired before signing the contract. The best way to detect problems is to prepare to them sooner. (Lovallo et al. 2007, 94 - 95.)

It is justified to make an agreement beforehand that the buyer gets the access to the target company's information and other information before signing the pre-contract. It is critical to follow the timelines in an acquisition. Following the timeline is depended on the access of the information. Problems may occur if the target company is unwilling to give information about the company before the pre-contract because the evaluation of the target company is time consuming. (Blomquist et al. 2001, 41.)

2.6.3 Overestimation of synergies

Synergy benefits are advantage acquired created by compatible resources of the buyer and the seller. Practically synergy benefits mean that the final profit is bigger after the acquisition than as practising business as separate. Analysing synergies is based on long-term acquisition plans. Typical synergy benefits are removed costs, acquiring bigger marketing segment or marketing position, larger sales volume and improving efficiency of production or research and development (Tenhunen -Werner 2000, 14.)

Companies have a habit of overestimating strengths. Therefore they should use their consideration estimating synergy benefits. Buyer should compare developed synergy benefits and strengths to previous experiences of successful acquisitions and acquired benefits in addition to notice the factors that have made the acquisition successful. (Lovallo et al. 2007, 95 - 96.) However, two thirds of acquirers admit to overestimate synergy benefits. Acquirers overestimate the synergy benefits and profits created by the acquisition but on the contrary underestimate the weaknesses and losses. In order to change an acquisition turning from unsuccessful to successful, the best way is to treat the synergy benefits as well as the weaknesses of the deal as the same. (Cullinan et al. 2004, 102.)

Measurement of synergies and their evaluation is difficult. Overestimation as well as underestimation can lead to a bad case scenario such as unsuccessful acquisitions. (Elison - Ruggeri 2008, 30).

2.6.4 *Organization culture*

Every organisation has its own social and cultural environment that is influenced by organization norms, values and nationalities. Cultural differences emphasize when cross-border acquisitions are conducted. (Angwin 2001, 55.) Cultural differences are a one of the common and known reasons to cause problems in acquisitions. It is stated that cultural conflicts can occur in any occasion. According to Lovallo et al. (2007, 96) in a research made by McKinsey, conducted in 2003, Roberto Weber and Colin Camerer have accounted how conflict situations can weaken ability to work. The researchers pointed out that with common organizational guidelines, artefacts, symbols and other factors that deepen company's organization culture, has an effect that weakens the new organization culture when transferred and made an attempt to adjust to the new environment of the acquired firm. One way to prevent organization cultural problems is to perform a personnel- or organizational due diligence. It is extremely important to identify different networks and resources that are important due to the core knowledge of an organization because they help two individual organization cultures to work as one. (Lovallo et al. 2007, 96.)

An organization culture can be divided into two parts, organizational climate and national culture. Organizational climate is the superficial part of the organization culture. It is easier to managers to lead than national culture that has consisted of employees' nationality or the geographical location of the company. National culture therefore is the deeper part of the organizational culture. It reflects the employees' beliefs, attitudes, values, customs and practices (Lees 2007, 190 -193.)

Many acquisitions fail due to problems concerning the organizational culture. The aspect of organization culture should be acknowledged in an acquisition. It is difficult for the management to abandon a deal mainly due to organization cultural reasons. The management has often sacrificed a lot of resources to finalize the acquisition. However, in order to make sure that the acquisition is profitable and successful, a thorough completion of examining the organization is justified. This should be made before signing the pre-contract when committing to a long-term investment. (Cartwright - Cooper 1993, 65 - 68.) Failed M&As often reflect sloppy due diligence on "soft" issues such as inefficient pre-planning and post-cultural integration (Horwitz et al. 2002, 3).

Pre-planning of an acquisition has a direct impact on post-integration. Proactive M&A approach is vital due to that often companies neglect this area of investigation that concerns the planning organisation culture in change and managing after the acquisition. Efficient application of HRM-practises diminishes these problems that usually are out of control, when it comes to managing them. Communicating vision and new goals, delegating employees and involving the personnel by task and social integration gives them feeling of trust and therefore HR-strategies are essential to managing the cultural integration. In detail HR success factors include addressing HR-

cultural integration. In detail HR success factors include addressing HR-issues during strategy development, including HR-issues in pre-deal contracts, training, avoiding decisions concerning downsizing, productivity improvement etc. (Horwitz et al. 2002, 7 - 8.)

2.6.5 *Insufficient planning*

As mentioned above, pre-planning is vital in order to achieve M&A success. Planning and anticipation in an acquisition are the starting point of successful acquisition. Combining two companies requires a lot of resources. Therefore it is important to carefully plan the strategy. Planning resources such as time and money is essential when considering strategy and success of the acquisition. Companies that are successful in acquisitions are successful also in other business areas in the future. They can identify the best solutions in acquisitions and can use them in the future. Signing a contract and the following procedures in the acquisition is a large learning process that is useful for the whole organization. (Lovallo et al. 2007, 96 - 97.)

Planning is not sufficient itself in acquisitions but it should unite with company's own capacity and knowhow in order to acquire success. Therefore company's capacity and knowhow is attached as part of the acquisition strategy. (Lees 2007, 65.)

The acquisition strategy must be applied detailed to the company strategy if the preferred goal is to add the value of the company. Too many companies rely on the added value in the future and ignore the careful and detailed acquisition planning. (Lees 2007, 78.)

2.6.6 *Conflicting objectives*

Companies that perform acquisitions rarely are in a worse situation than those companies that conduct acquisitions frequently. It is important to identify a profitable acquisition where parties, the seller and the buyer have the same objectives considering the deal. (Lovallo et al. 2007, 97.) On the perspective of the buyer, the acquisition is made due to acquiring new markets or enhancing product variety. The seller has a different objective selling the company than the acquirer has. Therefore conflicts can occur if both parties prioritise their own objectives. (Tenhunen - Werner 2000, 11 - 12.)

The goal of due diligence process is to identify the sincerity of the seller and the acquirer and ensure the similarity of objectives. It is valuable to have experience about acquisitions. Therefore when the acquirer has insufficient knowledge about acquisitions, it is common to use outsourced advisors who have specific expertise about acquisitions.

Using outsourced advisors is justified due to that acquirer and company's own experts are biased which can affect evaluation of the deal and recommendation to acquire instead of walking away from the deal that turns out to be unprofitable. (Lovallo et al. 2007, 97.)

The decision to acquire is a strategically made decision. In addition to strategic evaluation there has to reevaluate success factors and define new objectives continuously after the acquisition. (Tenhunen - Werner 2000, 11 - 12.)

2.6.7 Defining the price

After pre-stage due diligence the acquirer faces the stage of making an offer about the target company. (Lovallo et al. 2007, 95).

Defining the price is critical phase in making the offer. The affordable price of the investment defines if the target is beneficial to the buyer. In addition the price defines the true value of the investment. The acquisition is profitable to the buyer if the selling price is lower than the true value of the target company. (Tenhunen & Werner 2000, 18 – 19.)

There are two ways how a firm can be bought: Bidding in auctions and negotiating with bargaining (Cooper et al. 2005: Ilgaz Arıkan, 182). Due to the differences of the different acquisition processes, acquisitions can be divided into auction processes. Auctions have several buyers that are interested in the target company or just one interested buyer. Therefore pre-contract is signed when only one interested buyer exists. In addition buyer has to agree to secrecy commitment and different insurances and guarantees are common. (Blomquist et al. 2001, 10 - 11.) These mentioned factors can affect the price.

There might be several interested buyers making the offer about the target company. In this case there it is question of competition about the price. This affects to the negotiated price therefore that the selling price can incline high only due to the price competition. The buyer can prepare to the incline of the price making decision about the price that is ready to pay for the target company. This price hinders unreasonable selling price and commitment to too valuable acquisition to the acquirer. The price decided prevents the buyer to raise the price indefinitely. Another solution is to promise compensation reaching the objectives, in other words the closer the price is to the initial target price, the higher is the compensation the negotiator receives. (Lovallo et al. 2007, 97 - 99.)

2.6.8 Post-acquisition problems

In the final phase of acquisition the offer is accepted or rejected. It is possible to conduct also a post-due diligence. (Lovallo et al. 2007, 99). Due diligence at this stage confirms that terms in the contract are accurate and if exceptions are noticed, the acquirer can demand compensation or reduction off the selling price. (Blomquist et al. 1997, 12.)

It is possible to get more detailed information about the target company at this phase. After accepting the offer, the acquirer presumes that the results of the initial due diligence are still valid and another evaluation is unnecessary. The acquirer is confident that new due diligence is not be needed anymore. This can result from the fact that the buyer has sacrificed a lot of resources already into the process. Having that said, relying on preconceptions can be troubled therefore that mistakes are often ignored. This can be avoided by doing due diligence after signing the contract in addition to conducting it before signing the contract. (Lovallo et al. 2007, 99.) Even tough, pre-planning is a strategy to avoid post-integration problems in addition to insufficient planning, post-integration issues are to be considered as well.

At the final stage of the acquisition the buyer might be afraid that the costs evolved are unnecessary that can force the buyer to proceed with the negotiations of the deal to seal the contract. The best solution to prevent this to happen is to use outsourced advisors and make a back-up plan if walking away from the deal is current at the time. The buyer should consider multiple options in the process in the case if the target company does not meet the objectives. The ability to use alternative option and walk away from the deal requires discipline and determination from the buyer's side. (Lovallo et al. 2007, 99.)

2.7 Challenges of advisory services in the due diligence- process

Due to the challenges in the due diligence process mentioned in the previous chapter, it is justified to use advisors as experts to detect and solve acquisition problems better. Instead of hiring people with a certain expertise, it is popular for companies to use external, temporal contract experts. Advisors deliver services that are provided through lawyers, auditors, and IT- and other management consultants. The reasons for the use of external experts is driven by strive for efficiency, flexibility and access to the latest expertise. Companies pay for a competence when needed to operate more efficiently and flexible. (Furusten - Werr 2005, 1.) However, clients see a risk when hiring an outsider. The client has speculations, mainly emotional when using professionals. Clients often feel afraid of leaving a project to experts. Client can stress about if project

is conducted well. The client may feel anxiety and stress in the beginning of the process and can easily feel that instead of being helpful, the advisor is creating more or less, complications. Therefore advisors have to develop interpersonal skills to reassure and convince the clients of their expertise. (Maister et al. 2000, 28.)

It is vital to use advisory services in the due diligence- process due to their comprehensive experience of different, multiple acquisitions. The experts have specific expertise on their own field of knowledge through education and work experience. As a result of their good judgment skills the whole due diligence process is more effortless and smoother. The acquirer can concentrate on its core business and centralize due diligence process to advisory teams. (Howson 2003, 30.) It is a challenge to acquire significant information about the target company and if there exist a lack of experience, the emphasis of due diligence can be focused on wrong areas (Bäck et al. 2009, 21). Therefore it is reasonable that due diligence process is divided into different areas and advisory teams. Experts can use their expertise the best way possible to ensure the benefit of the acquirer. Alternatively due diligence team can be organized so that all the experts from all areas of expertise work together towards a common goal executing the acquisition. This due diligence team might reach results faster since ultimately due diligence has to be scheduled accurately in order to finalize the deal. In addition it is crucial that due diligence emphasizes core issues in the acquisition in order to achieve results. (Elison - Ruggeri 2008, 29).

Advisors have the responsibility to inform the decision maker immediately about the occurring problems, difficulties and therefore ensure the quality of the information. However, corporate secrets or other sensitive information of the target company is not shared with the acquirer. The challenge is to find all the relevant information in a short time frame, in a form that is practical and desired enough. Occasionally, the additional information provided by due diligence does not support the decisions and therefore experts are suggested to pay attention to source criticism. (Bäck et al. 2009, 21.)

It is common that outsourced advisors are sometimes linked to the acquisition at a later stage. Deal has been negotiated and therefore the buyer needs confirmation about the validity of the information of the target company. This type of due diligence is named as “quick and dirty”. It is obvious that there cannot be conducted a significant investigation of a company that want to be done over night. Advisors do not have enough information, time or resources to inform about deal breakers or other potential risks in time. This sets a constricted responsibility to the advisors therefore that they cannot perform the due diligence as they could otherwise. (Blomquist et al. 2001, 38.)

2.8 Theoretical framework of the study

The research purpose is to analyze the role of outsourced advisors in conducting due diligence in the context of acquisition. Each sub objective of the study is connected to the theory presented about advisory services and due diligence process in acquisitions. Next figure (figure 4) illustrates the theoretical framework of this study, how the sub objectives are connected to each other, affecting the role of advisory services in conducting due diligence in the context of acquisitions.

The purpose of the first sub research question is to determine why outsourced advisors are brought into the due diligence process and how does it involve them into the due diligence process in the context of acquisitions. The first research task is determined by defining the nature of acquisitions, due diligence process and what is the advisors' involvement into the whole process on the behalf of the acquirer. Degree of advisor involvement in the process of due diligence depends on the acquirers' need in the process and desired services conducting the due diligence in examining the target. Figure acknowledges the role of advisors by determining how big is the area of advisor services block. The bigger the block the more involved are advisors in conducting due diligence and therefore covering area from the acquisition process. Advisor involvement therefore affects the planning and execution of due diligence. This process can be broken into a phases in the due diligence: Letter of commitment, preparing for the due diligence, data collection and analysis, reporting and debriefing.

The second research task is to define to which extent advisors conduct due diligence, in other words, describing the areas of due diligence where different advisors conduct due diligence on the behalf of the acquirer and their areas of expertise. The areas of due diligence are financial, legal, business, tax and other areas of due diligence. The buyer defines and manages the advisers to which extent they acquire information and what areas are considered important. Therefore the execution and planning of due diligence affect what dimensions are examined. Areas of due diligence in addition to their significance for the acquirer determines the scope of due diligence and dictate what expertise is being used.

The third research task is to figure what challenges comes to fore and how experts try to solve these issues. The definition of the role of advisors depends on how they face during the due diligence process. Challenges of due diligence are divided into different stages of the acquisition process. There are several problems encountered and the importance for role of advisors is to solve them according to each acquisition process. Therefore challenges are affected what kind of acquisition process or due diligence process is at hand and what areas are given attention to.

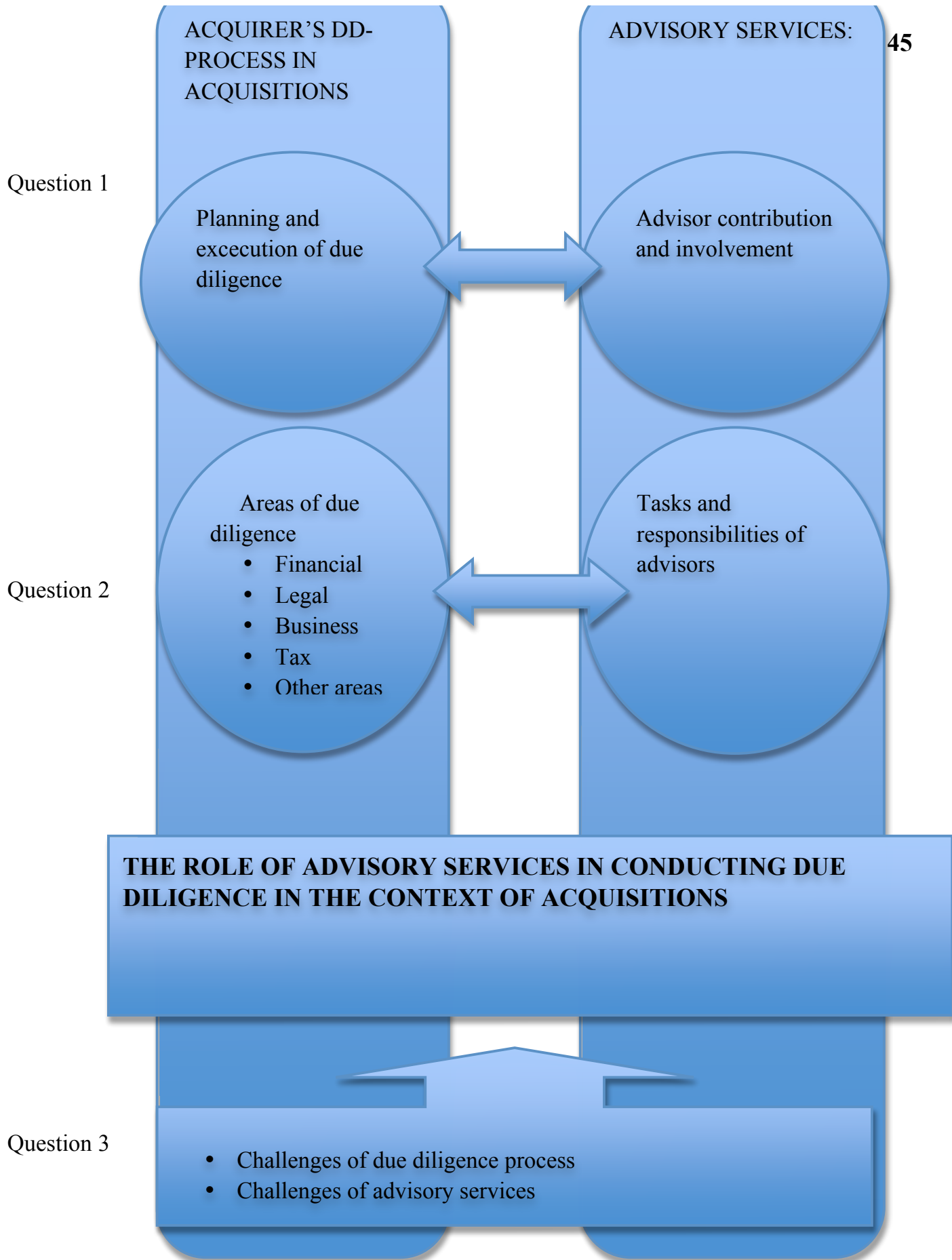


Figure 4: Theoretical framework

Each research task is considered as a key factor affecting the role of advisory services in the process. The three factors affecting the role of advisory services in conducting due diligence in acquisitions are discovered through the three sub objectives of this research:

1. Advisors' involvement in the process
2. Advisors' tasks and responsibilities
3. Exploitation of expertise in preventing problems

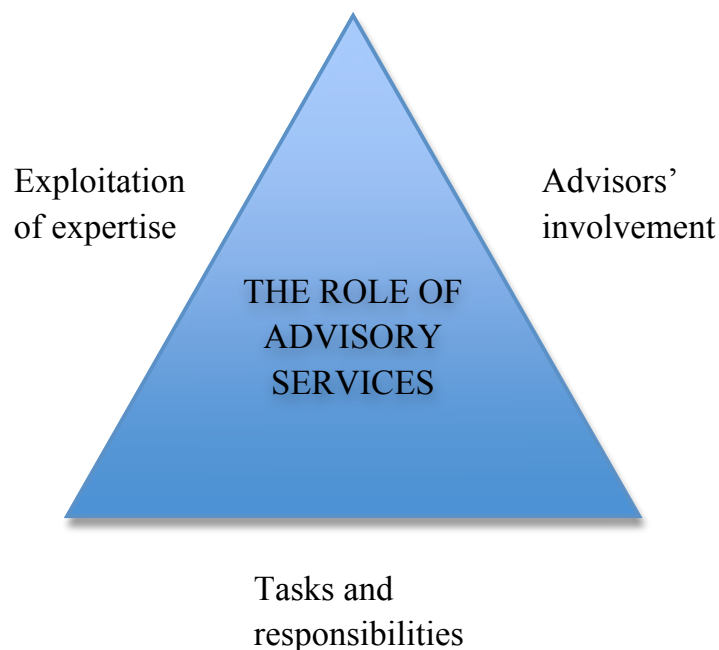


Figure 5: The factors affecting the role of advisory services

The research question assumes that the role of advisory services consists of three aspects that the study examines: Advisor's involvement, tasks and responsibilities and exploitation of expertise. The three aspects act as cornerstones of the role of advisory services and therefore the research question is divided into three sub objectives. The research will return to this abstract later in the conclusions of chapter 6 after findings of empiric research are presented and connected to these sub objectives of aspects of the role of advisory services.

3 EMPIRICAL RESEARCH DESIGN

3.1 Qualitative approach of the research

The method, empirical research design chosen for this study is qualitative. In general, the method of the research needs to be fitted in the theoretical frame. In addition, if the research question of the research is describing and searching meaningful structures, how people understand different matters, the method chosen should be qualitative. (Alasuutari 2001, 83.) When analyzing opinions and attitudes of the advisors, a qualitative research is the most useful method for the research. Writing has also a more persistent status in qualitative than in quantitative research. It is common in qualitative research that the researcher analyzes continuously their own vision, clarifying data to exploring thematically, generalizing it and developing new theoretical comprehensions in the research instead of explaining only theoretical consequences to the reader. (Hirsjärvi, Remes & Sajavara 2009, 266.) This particular research is concentrated on interpretation and understanding the role of advisory services and the phenomenon of conducting due diligence, setting the ultimate goal to develop themes from the collected data on the role of advisory services and conducting due diligence in the context of acquisition.

Qualitative business research provides a researcher an opportunity to focus on business phenomena in their contexts. In other words, it produces new knowledge about how business works in reality and particularly why it works in a certain way and how it is possible to make sense of them if they change. (Eriksson - Kovalainen 2008, 3.) In this research, it is relevant to reflect theory to the empirical research and make assumptions about the role of advisory services working with the due diligence in the context of acquisition involving the professional area of expertise and ability to exploit it in the process. The objective is to discover key factors that affect the role of advisory services. Therefore, the researcher has provided a theoretical framework and an abstract of the research problem where it is easier to understand how the sub-objectives of the study are related to the research topic.

3.2 Strategy of the research

The purpose of the research can be divided into four categories: explorative, explanative, descriptive and prognostic. There can be several purposes in one research and they can change along the proceeding of the study. (Hirsjärvi et al. 2009, 138 - 139.) The purpose of this study is to be mainly descriptive and explorative. The

researcher tries to describe the role of advisory services in addition to process of due diligence in the research as carefully as possible by making assumptions through interviews about advisors conducting due diligence and how they fit into the acquisition process. The research also is explorative due to that the researcher searches for key factors that affect the role of advisory services and updates the research to this time period by reflecting the downturn economy as a current problem. Therefore the strategy chosen for this research is to interview experts who possess different expertise and conduct different areas of due diligence. There are made six interviews in total in this research. Five of the interviewed are advisors working in different advisory services and one interviewed expert represents an acquirer. The purpose of this was to reflect the answers of advisors to the acquirer's and seek meaningful findings relating to the role of advisory services conducting due diligence in the context of acquisitions.

The purpose of interviews is to produce empirical material for the research that is related to the topic and research questions (Eriksson - Kovalainen 2008, 78). An interview is simply defined as a conversation with a purpose (Berg 2004, 75). The purpose of the interviews is to find correlations as well as differences between the theory and empirical research to make assumptions about advisory services' role in conducting due diligence therefore finding factors that affect the role of advisory services. Best solution for the purpose of this research is to make interview advisors. It is a common method in business research due to its effectiveness and practicality. In addition interviews give insight of experiences seen from their point of view. (Eriksson - Kovalainen 2008, 81.)

An interview is well-grounded method for this particular research due to straightforward interaction with the interviewed; it is possible to get information by observing about the situation of the interview and the motives behind the answers. (Hirsjärvi - Hurme 2001, 34). In addition there is chance to ask additional and more accurate questions if the initial question is not sufficient or if the researcher is not satisfied with the answers and wants to find out more in order to receive better insight to the subject. The researcher asked actively additional questions concerning the themes and topic of the study.

This research concerns some issues that are delicate to certain extent and to be dealt with confidence. In order to clarify the answers it is justified that a right amount of time is given to the interviewed when it is question of a delicate subject. (Hirsjärvi - Hurme 2001, 35). By delicate subject it is implied to dealing with projects of due diligence in acquisitions where the advisors have signed a confidence agreement with their clients. Even though an interview involves problematic aspects such as inexperience of the interviewer, subjectivity of advisors of emphasizing their role and challenges relating to analysing and interpreting the answers, it is reasonable to research the role of advisors by interviewing them. (Hirsjärvi - Hurme 2001, 34). The researcher arguments, that by

interviewing, the results of the answers correspond with the importance of the study. By far, the best experts describing the key factors affecting the role of advisory services are the advisors themselves. In contrast the researcher has taken an additional perspective of an acquirer to discuss about procedures of a realistic acquisition process.

The researcher has chosen a semi-standardized interview for this particular study. It involves questions that are asked in a particular order but interviewees are permitted to go beyond their answers and tell freely about the question in hand. (Berg 2004, 79-81). In fact, before the interview the researcher has requested the interviewees to provide freely their own perspective and reflect each question to their role in own area of expertise.

The researcher can adjust the language of the structured questions and questions can be recorded during the interview. In addition the interviewer can ask other questions seeking additional information. (Berg 2004, 79 - 81). The purpose is to provide a list of questions to an expert of due diligence who has a vast experience from conducting due diligence. Face-to-face interview is the best alternative to seek answers to research questions in this study in order to clarify the answers as mentioned above. The interviewees were chosen according to the preferences of the researcher but also according to who consented to face-to-face interviewed. In order to have consistency in the empiric research method the interviews were held with the same method and there was an option to ask further additional questions to fill in the blanks. The researcher wanted to choose experts that have a vast work experience of conducting due diligence and sufficient amount of knowhow about the issue. In addition each interviewee possess a different area of expertise. The researcher contacted advisory companies and experts by mail in order to get an interview that is based on expertise. After mailing the researcher often discussed with interviewees over the phone to set a date for the interview and agreed a meeting in the office of the advisory services. However, there were some setbacks in the empirical research process, not everybody answered the mail where the researcher asked a permission to interview the experts and some who answered, did not agree to meet the researcher face-to-face.

The researcher has classified the interviews as A, B, C, D, E and F. This is made due to that the interviewee A, and F did not want to publish their name. Advisor A is an expert working in a larger scale accountancy and global advisory service company. Interviewee A is interviewed in the research due to wide experience of due diligence cases of financial due diligence in an executive level. In addition interviewee F did not want to mention its name as representing the acquirer side. Interviewee F is a financial manager of an international IT- company among one of the leading enterprises in the field of hotel and restaurant IT- systems. Advisor F is in this research to present what it is like to perform an acquisition process and provide an acquirer's insight to the role of advisory services. Interviewee B is Kaarle Kaleva that is financial advisor of

Tili-Avekki Oy in the Turku region that has specialised in accountancy. Advisor B represents a smaller scale firm in the research. Interviewee C is Olli Hyvönen, an associate lawyer from Helsinki that works in an international advocacy firm Bützow that is specialised in business law and has conducted various due diligence cases on acquirer's and vendor's side. He represents a legal advisor in this research. Advisor D Sami Koskela, is a consultant in strategy and consulting operations and works for a global advisory service company Deloitte that provides different services concerning accountancy and consultation of acquisition services. He has wide experience from commercial due diligence. Interviewee E, Andreas Holmberg is an associate of investment banking and involved with corporate finance in one of the leading Nordic investment banks: Nordea banking. He has a wide experience from vendor due diligence and is taken in to the research as an expert of investment banking and financing.

3.3 Data collection

In empiric research, the methods are always in a fundamental position regarding the researcher's work. The choice of method is generally chosen according to what sort of information is desired (Hirsjärvi et al. 2009, 184). Therefore the research method should be relevant for answering the research question of the study (Eriksson - Kovalainen 2008, 27). Qualitative research emphasizes that the collection of data is to be conducted purposely and the data is selected by planning which are to be taken into the study (Hirsjärvi et al. 2009, 164). Empiric data for the research consisted of six face-to-face interviews that were conducted during the year 2009-2010. The interviewed advisors were chosen carefully and were explained with a purpose why to be taken in this particular research in addition to that interviews will be recorded. Every interviewed is chosen from a different area of expertise and who have enough knowledge to be qualified enough to act as experts in this research due to experience among due diligence in acquisitions. Accordingly bounding also collection of data properly is important due to the fact that it is impossible to study everyone, everywhere, doing everything. This is called sampling. (Miles - Huberman 1994, 27). This research uses advisor interviews as main means of data collection and tries to pick out some key findings from the collected data in order to make conclusions about the research problem in question. Thus, personal interviews are an effective method of collecting data on elite subjects. (Odendahl - Shaw, 300).

Data sources that a researcher can use are primary data and secondary data. Primary data is data collected by the researcher for a particular research problem. Secondary data is information collected by others than the researcher itself for different purposes.

(Ghari - Gronhaug 2002, 76). Data is collected via several methods such as observations, interviews, collecting documents, and audiovisual materials (Hirsjärvi et al. 2009, 135). This study uses interviews as a main mean of data collection that refers to primary data but also theoretical material such as articles and textbooks means of interpreting empirical data: interviews. There are several reasons why an interview is a favorable choice of research method. Firstly, it should be chosen if the emphasis is on an individual as an active creator of meanings. In this research, the experts are vital creators of adding value in the due diligence process in acquisitions. In addition, if it is known beforehand that the research will produce multiple and complex answers, as was the case in this particular research, an interview can be used as a chosen mean of data collection. (Hirsjärvi et al. 2009, 205 - 206.) Finally, an interview should be considered not only because it allows the interviewer to control the structure of the interview but also because the participants can provide important historical information on the phenomenon, helping the interviewer to identify other relevant sources of evidence (Creswell 2009, 179; Yin 2009, 108). In this research, experts' experiences on acquisition planning and conducting due diligence was especially valuable source of information due to that experience of conducting a due diligence is partly built on tacit knowledge about acquisitions.

An interview is mainly the only way to collect meanings and interpretations. In addition it complements other methods. Although an observer would hear plenty of thoughts and opinions, there is a possibility that the researcher receives wrong implications if not confirming the observations when interviewing. There are three types of interviews: structured, semi-structured and in-depth. (Koskinen, Alasuutari & Peltonen 2005,106.) There are made six interviews in this study that all of them were personal face-to-face interviews. The questions are semi structured in the personal interviews and given the opportunity for the interviewees to tell freely more about the theme concerning the interview questions. The advantage of structured or semi-structured interviews are their uniformity but semi structured has the advantage of taken the context into consideration and gives an opportunity to the interviewee to tell about personal matters. (Ghauri - Gronhaug 2002, 101). Researcher has given time to the interviewee to discuss their own experiences freely to reflect answers to the current situation. Therefore it is able to use answers to update information concerning the topic of the research and the researcher's own experiences. Due to that this research concentrates on the aspect of advisors, their own life experience about their work is highly recommended. This provides the interviewer a basis to understand the interviewee better and where they are coming from since different areas of due diligence and expertise of the due diligence are researched.

In order to get vital data about the interview such as pauses, the utilization of the voice and opportunities of direct citation, it is recommended that the interview is being

recorded. It makes it more natural atmosphere when notes are taken by recording instead of writing them down (Hirsjärvi - Hurme 2001, 92 - 93.) The researcher recorded all the interviews due to that the researcher discovered it to be to most consistent and easiest way to receive and handle important information regarding to the study. Every interview lasted approximately from 45 to 90 minutes. In addition it is said that usually data collected by thematic interview and analysis is always sufficient and the more time spend with the interviewee, the more material is received. The more interview material, the richer is the data collected. (Hirsjärvi - Hurme 2000, 135.) The researcher made sure that there has been sufficient amount of time when interviewing advisors. Interviews were collected in various places, more specifically in the premises of the company they work in.

3.4 Data analysis

The analysis, interpretation and drawing conclusions comprise the core of the research (Hirsjärvi et al. 2009, 221). Data analysis has been one of the biggest challenges of qualitative research throughout ages. It is a creative process and researcher should be able to interpret results of the data collection, due to that understanding the humanity is the most important goal in qualitative research. (Syrjäläinen, Eronen & Värri 2007, 8.)

The data analysing work was practically conducted by processing of the opinions of the interviewees. They all are experts of due diligence but have different viewpoints and area of interest into the due diligence process. The aim of data analysing in this research is comparing interview comments to the suggestions and propositions offered in the theoretical framework after collecting the data. However according to Silverman (2000), the most important thing is to remember that data analysis is to be made when data is collected and not after gathering (Silverman 2000, 121). The researcher tried to make correlations during the interviews and therefore asked additional questions in order to perform partly data analysis already during the interview.

A typical character for qualitative research is inductive analysis. Therefore the aim of the researcher is to find unexpected issues. Inductive analysis can be described as careful and ambiguous observation of data. The interviews are to be observed and analyzed properly in order to reveal unexpected information that is important in the study. (Hirsjärvi et al. 2009, 164.) This study uses inductive analysis to figure out unexpected findings regarding to the role of advisory services conducting due diligence in the context of acquisitions. However when the researcher analysed the data, general features of grounded theory appeared to the research. Glazer and Strauss are the initial founders of grounded theory and the model of grounded theory involves: an initial attempt to develop categories which illuminate data, an attempt to saturate categories in

order to demonstrate their evidence and develop categories into a more general analytic framework with relevance outside the setting. However, when not able to perform a deep observational work in a certain context and categorise them, the model of grounded theory is not a proper means of analysis. (Silverman 2000, 144 -145.) The researcher has developed a theoretical model of a triangle where the sub objectives of this research are connected to the role of advisory services. Therefore researcher has discovered during analysing data that a factor influencing to the role of advisory services is constructed from other features of other key factors in the triangle to attempt to build a theory about theoretical and empirical evidence. However, the researcher is not convinced of the value of the data of grounded theory and therefore categorises the theory as inductive analysis by sorting unexpected data, features affecting sub objectives of the study into a bigger context, the role of advisory services.

The purpose of the whole data analysis is to provide clarity and produce new information about the phenomenon in question. In addition the purpose of data analysis is to sample the data without losing any information. The purpose is creating information value by making it straightforward. (Eskola - Suoranta 1998, 138). The researcher provides clarity by organizing the findings and conclusions according to sub objectives of the study. However, there are limitations to the data analysis. There are three alternatives to analyze the data: data can be broken down into analysis by trusting the intuition of the researcher, coding the data and move on to analysis or combine the methods above. (Eskola - Suoranta 1998, 151). In qualitative study the analysis of the interview data cannot be straightforward and the most common way to analyze it is through content analysis (Berg 2004, 114). According to Silverman (2000) the most popular approach used in data analysis is to treat respondents' answers as facts or events, in other words describing external experience or as feelings and meanings that is considered as internal experience (Silverman, 2000, 122). This research uses the first method suggested by Eskola - Suoranta (1998) analysing the data through the content by relying on the intuition of the researcher when drawing conclusions by analyzing and asking the respondents to describe and share external and internal experiences. In addition the researcher has built this research design by reflecting the answers of the respondents by other interviews.

The strengths of qualitative data analysis are features as focusing on natural events, richness of holistic view and analysis of sustained period. The data involves reality and connected to a specific context assessing causality over a sustained period. The qualitative analysis is divided into three flows of activity which are data reduction, data display and finally conclusion drawing and verification. (Miles - Huberman, 10-11.) In addition Eskola - Suoranta (1998, 161) divide the methods of analysis into quantitative analysis techniques, thematic analysis, typical analysis, content analysis, discursive analysis and interactive analysis. Thematic analysis is chosen for this particular research

due to the fact that certain themes reflect certain data analysis results and the data collected and analysed from the interview is done according to particular themes. In addition content analysis is used to interpret results to receive facts. The researcher has organized analysis of the findings and conclusions according to sub objectives of the study in order to interpret them according to the theory. Therefore the analysis of findings and conclusions are better organized in order to the favour of the purpose of the study.

3.5 Trustworthiness

The issue of trustworthiness of the study is important especially in qualitative research. The basic concept of trustworthiness can be defined by answering comprehensively to following questions: “ How can inquirer persuade his or her audiences (including self) that the findings of an inquiry are worth paying attention to, worth taking account of, what arguments can be mounted, what criteria invoked, what questions asked, that would be persuasive on this issue?” In other words the task of the researcher is to persuade the readers of the importance of the study. (Lincoln - Guba 1985, 290.) The researcher persuades readers about the role of advisory services by convincing them that key factors of the role of advisory services depend on features that ultimately form a triangle that is presented in chapter 2.8.

In qualitative research there is a chance to go back and forward with the analysis of the data. The researchers face the problems of restricted pre-assumptions, the basic rules of everyday life and theoretical framework compared to quantitative study where the issues above are better defined. (Eskola - Suoranta 1998, 209 - 210.) Trustworthiness of the research depends also on the quality of the interview collecting the data. In order to achieve the best quality of interviews it requires careful planning of the interview questions thinking about themes and additional questions. During the interview it is possible to enhance the quality of the interview by making sure that technical equipment are working and reviewing the questions after the interview that every theme has been covered during the interview. In addition it is possible to enhance trustworthiness of the interview in the study by writing down the interview as soon as possible after the interview. (Hirsjärvi - Hurme 2001, 184 - 185.)

In order to enhance trustworthiness and quality of the research, there are several techniques to support the evidence for research claims. They are triangulation, member validation, analytic induction and the search for negative instances. Triangulation is a method where single fixed reality is known objectively through multiple methods of social research such as using diverse sources of data. This method is discussed more in the chapter 4.1.1. (Seale 1999, 53.) Triangulation is used in this study and therefore it is

the only presented method. The main criterion of qualitative research is the researcher itself pointing out the fact that evaluation of trustworthiness concerns the whole research process. (Eskola - Suoranta 1998, 211 - 212). Evaluating trustworthiness of the research can be measured in many ways. According to Lincoln & Guba the main criterion of trustworthiness are credibility, transferability, dependability and confirmability. (Tynjälä 1991, 390.)

3.5.1 Credibility

Credibility describes the implementation criterion that the inquiry should be carried out with enhanced findings and that these findings are approved by the reality. (Lincoln - Guba 1985, 296.) There are three activities which increase the probability of credible findings: prolonged engagement that implies to sufficient time to learn about the object of study, persistent observation that involves opening up to multiple influences in the object of study and triangulation which means using multiple sources, methods, investigators and theories in the object of study. (Lincoln - Guba 1985, 301 - 305).

Prolonged observation is current for this study therefore that the researcher has paid considerably much attention and spent time with the theoretical framework of the study by reading literature and getting to know about the research phenomenon when making bachelor's thesis in 2008 about due diligence. In addition the researcher has read contemporary and previously established literature about experts and due diligence. Credibility is shown in this study due to that the researcher has actively observed world's economical situation particularly around acquisitions. The author has been interested in the topic of acquisitions for several years.

Prolonged engagement means that the researcher is able to detect distortions of the data. It is important to be open to multiple influences and detect irrelevant data when dealing with personal distortions. (Lincoln - Guba 1985, 202.) When interviewing the respondents, it should be paid attention to the quality of the answers and be able to detect misleading information. The respondents of the study have vast experience of the topic and were able to discuss of the subject professionally and with dedication to the subject in question. The author is confident asking the right questions in order to receive high quality empirical data. However, when it is question of semi-structured interview, the interviewees were given a chance to discuss freely about the area of their expertise, and therefore not all information gathered was relevant, although it strengthened the researcher's knowledge about the research topic.

The goal of persistent observation identifies the most relevant characteristics to the problem and focuses on them in detail. (Lincoln - Guba 1985, 304.) Interviews were made on the basis of identifying problems by observation, focusing important issues

asking the relevant questions in the interviews, and connecting interview findings to the existing theory.

Triangulation method is being used having several interviews that implies to trustworthiness, theory and empirical studies are combined and used as forms of data sources (Lincoln - Guba 1985, 305). The author has used widely literature as a source: news articles, scientific literature as well as articles. The subject of the research has been studied carefully through interviews and different advisory service companies as well as different experts possessing different area of expertise as additional empirical sources.

3.5.2 *Transferability*

Transferability in qualitative research is trying to find similarities linked to context and time and if hypotheses hold in some other context than in the research. The important aspect of transferability is to provide a database that makes possible to form conclusions whether a particular phenomenon is transferable. It is researchers' task to provide a database where transferability judgments are possible. According to Lincoln - Guba (1985), the data should be carried out in such detail, that other applicators can later on judge the transferability by themselves. Therefore they suggest that the data should be collected conducting transferability by selecting explicit research focus. (Lincoln - Guba 1985, 316.)

The theory of the study is transferable. Therefore the researcher has chosen experts that have experience to provide a common overview about conducting due diligence even though they possess a different area of expertise. The researcher has to be able to show the similarity between the research and other research results and also previous contexts (Eriksson - Kovalainen 2008, 294). By interviewing multiple advisors, the researcher follows the aspect of transferability by showing similarities in the role of advisors working in different contexts. This research indicates that conclusions are transferable due to that the results are transferable among multiple advisory service companies and branches that experts, in fact, treat the process of due diligence the same.

3.5.3 *Dependability*

Dependability describes how dependent the research results are on the external factors of the research situation. The factors include features affecting the situation, the researcher and the research objective itself by how they can influence the results of the study (Lincoln - Guba 1985, 299.) Dependability assesses interdependency of the

empirical findings and the research itself. It provides an assessment of the research situation. Dependability is often confused with the term credibility where in reality they are two overlapping methods. (Lincoln - Guba 1985, 317.) This area of assessing trustworthiness is concerned with responsibility of the researcher to offer logical, traceable and documented information to the reader while credibility concerns the familiarity of the topic (Eriksson - Kovalainen 2008, 294). Traceable documentation and data are restored in this research in order to analyse after the interview what the interviewed has meant by each answer. Lincoln and Guba propose one measure that can raise the dependability of the research, inquiry audit which is an examination of process and the product of the research for consistency. (Lincoln - Guba 1985, 317). Inquiry audit is not used in this research due to that the researcher does not see it increasing significantly the research dependability. However, the researcher examines by reflecting the results of the advisor interviews with the acquirer interview. Therefore it raises the dependability of the research in theory by examining the role of advisory services through advisors' answers comparing acquirer's opinions about the subject.

This research establishes dependability in practise by that the interview is recorded and lettered strictly according questions. It establishes dependability consistency. All interviews are conducted face-to-face in order to establish consistency and dependability so that every interview can be analysed with the same tactic. The interviewees were informed about the topics of the interview and provided with question lists. The influence of the researcher was minimal due to that leading questions were avoided and open questions were preferred during the interview. In addition implications and suggestions are made on the basis of dependable and traceable documentation.

3.5.4 *Confirmability*

Confirmability can be referred to objectivity and neutrality of the data. Truthvalue and applicability are objectives of confirmability. (Lincoln - Guba 1985, 300.) It means that if multiple observers can agree on particular phenomenon, their collective observation can be defined as objective (Lincoln - Guba 1985, 292). This study establishes objectivity by neutrality. Experts that are interviewed are chosen from different companies and different area of expertise. However, the research faces the problem of objectivity when it is question of the interviewees. Two of the advisors that are interviewed are not willing to discuss the matter publicly and therefore the answers of the interviewed are presented as advisor A, B, C, D, E and F. In addition that the name of the company of the two advisors A and F are not mentioned declines the confirmability of the research although their branch of expertise are shared with the reader while the others are introduced in the chapter 3.2. The researcher tried to

duced in the chapter 3.2. The researcher tried to establish confirmability by other factors such as describing the context of the interviewed as accurate as possible to provide better understanding of the study environment to the reader where the collection of data is conducted and why to be taken account in the research.

There are several techniques to audit confirmability. Auditing confirmability is the major technique for estimating confirmability in qualitative research. Other methods for establishing confirmability are by audit trail with raw data, data reduction, and reconstruction of data, processing notes and materials and developing instrument information. (Lincoln - Guba 1985, 318 - 320.) Confirmability focuses on linking findings and interpretations that is easily understood by others (Eriksson - Kovalainen 2008, 294). The factors affecting conformability are the relationship between the researcher and the studied issue, the publicity of the research, the amount of detailed information about the research process and the researchers' own conclusions about the validity of the research. (Tynjälä 1991, 391 - 392.) All of these above listed factors were taken into account in this research in order to increase the level of confirmability. The researcher describes the research design as accurately as possible in order to give the reader an understanding about how the research is conducted.

3.5.5 Potential problems and limitations of the study

There are limitations in the study due to the fact that there are only six interviews made to provide the empirical data. Ideally it is recommended to use more interviewees to ensure more reliable data. However, it is not possible to organize as many interviews as it would require due to the time constrain. A quantitative aspect could serve as an addition to the opinions of advisors and do a larger scale study if the number of interviewees would have been a more relevant factor in this research. Despite of the number of interviews reaching more answers with quantitative research method, it is more vital to think about the size of the qualitative data to receive qualified and adequate results in order to answer the research question. More or less, this study is able to answer adequately to the research questions with the help of interviews of the advisors and the acquirer. One alternative to reach trustworthiness would be to observe the saturation of the data. (Eskola - Suoranta 1998, 62). In this study saturation is reached by interviewing as many advisors as possible to receive data which is enough to see correlations to the theory or new information which separates from the theory. Comparing to quantitative research the qualitative research cannot measure the adequate number of data. Therefore according to Strauss qualitative research can be observed through saturation in other words collecting data can be finished when new incidents do not add the value of the research. (Mäkelä 1990, 52). Due to the fact that this is not

possible having more than six interviews, the theoretical and empirical framework should be tightly connected in order to ensure the trustworthiness of the study. The study could add more interviews from acquirers. That would have provided larger framework to examine the whole phenomenon of the role advisory services conducting due diligence in acquisitions.

4 KEY FACTORS AFFECTING THE ROLE OF ADVISORY SERVICES CONDUCTING DUE DILIGENCE IN THE CONTEXT OF M&A

The findings of the whole empiric research are presented in this chapter: interviews that are conducted and analysed in themes. These findings are organized according to the sub questions of the research topic: the role of advisory services conducting due diligence in the context of acquisitions.

This chapter involves empirical questions about due diligence and answers provided by the advisors A-E from different advisory service companies in addition to an acquirer, advisor F. Interviewed advisors are introduced previously in the chapter 3.1.

The structure of the chapter is altered to response the sub questions of the research thematically. The objective is to discover and analyze findings that rise from the theoretical themes and questions. The interview questions are introduced in the end of this research, appendix 1 and divided according to theoretical framework in operational table, appendix 2.

4.1 Advisor's involvement in the due diligence process

The advisor's role of involvement in the due diligence process is determined by acquirer's decision to be involved and what extent in the process. Acquirer's involvement depends on the acquirer's knowhow of acquisitions and expectations about the due diligence process in addition to that advisors are mainly used due their ability to discover essential information. Therefore reasons mentioned above explain why and to what extent advisory services are outsourced to conduct the work on behalf of the acquirer.

Knowhow is a crucial factor why advisory services are outsourced to conduct due diligence in acquisitions. According to all interviewed advisors, the advisory services are hired to direct the mindsets of acquirers to focus on relevant issues. Due diligence as a process requires specific knowhow when collecting and analyzing information about the target company. If the acquirer lacks knowhow, it outsources the work to external advisory services. (Interview 9.3.2009) ; (Kaleva, interview 5.11.2009) ; (Hyvönen, interview 6.11.2009) ; (Koskela, interview 17.12.2009) ; (Holmberg, interview 29.1.2010)

“ Acquirer should be aware of own capabilities what extent they are able to use their own knowhow. Therefore it is vital to assess own strengths and weaknesses: reinforce strengths and outsource weaknesses.” (Kaleva, Interview 5.11.2009.)

It is reasonable therefore to use external experts in conducting due diligence if the acquirer feels strongly that they do not possess any experience of performed acquisitions. (Kaleva, interview 5.11.2009.)

Managing the acquisition process, strategic questions about why to acquire initially, is to be considered by the acquirer. Planning the acquisition and due diligence process thoroughly is therefore half the work done. Advisors know and have learned from experience that defining the strategy is relevant in the beginning of the acquisition process. (Koskela, interview 17.12.2009.) There is significant to find out what acquirer is not able to know and do, and therefore outsource the work to them that have the knowhow.

“The important thing is not how much we don’t know, as how wrong we are in what we think we do know” (Mark Twain, unknown.) ; (Interview 9.3.2009)

Therefore, when analyzing the Twain quotation interpreted by the interviewee A in the context of the research question, the advisory services is not hired to confirm the initial strategy of the acquirer, but to coordinate the acquirer to make the best decision in the situation where the company is in and provide a setting by conducting due diligence where it is possible to make a decision about the acquisition. Therefore the acquirer is ultimate the instance and able to make decision in the light of knowing better if proceeding forward in the process is sensible and ultimately if performing the acquisition. (Interview 9.3.2009)

”If considering what is the right thing to do whether to outsource or not, ultimately the decision of buying advisory services pays off. Additional cost derive from taking over, acquiring the target therefore that often complications come fore in the integration phase. All what is inside the building, the core and the soul, matters. The biggest costs can be avoided by outsourcing the advisory service that the acquirer can concentrate on its core activities because there is the fact that the target will remain afterwards as profitable as before.” (Interview 9.3.2009.)

Due diligence is conducted nearly every time a company is sold excluding stock companies and some family owned firms, at least to some extent. Advisory services expert A, claimed that they help to see the future business environment, to identify the changes, make use of potential and create alternatives and endurable business plans. (Interview 9.3.2009.) Applied due diligence is also according to a good conduct from the investors point of view if the target company or acquirer are public or stock exchanging firms. (Holmberg, 29.1.2010.) All of the interviewed advisors agreed that due diligence is to be attached to acquisition process at all times. Therefore when

diligence is to be attached to acquisition process at all times. Therefore when deciding to proceed further in the process and conducting a through investigation about a company, there are plenty of good reasons why there exist a need for advisory services to plan and execute the due diligence- process. (Interview 9.3.2009) ; (Kaleva, interview 5.11.2009) ; (Hyvönen, interview 6.11.2009) ; (Koskela, interview 17.12.2009) ; (Holmberg, interview 29.1.2010) Planning and executing due diligence is critical for the whole acquisition process. As referred to an interview made with advisor F (interview 27.1.2010), their example of an acquisition process was performed with inadequate planning:

”Planning as the first stage of the process took considerably much time and therefore the integration stage was the most difficult phase. Building the organization was harder than expected” (Interview 27.1.2010.)

This resulted in the acquisition process described by advisor F mainly due to factors that could have been avoided by planning and perhaps using outsourced advisory services because they evidently lacked the knowhow in planning the acquisition. According to advisor F, investigating better the target markets such as the employment rate level and cultural differences at the early stage would have helped in adapting business better than in reality. While pre acquisition such as planning the due diligence and executing it, and post acquisition questions are reviewed as important phases, integration phase is not to be neglected. The acquirer, advisor F pointed it as the most difficult, critical phase in their process. Building the organization is seen as a phase in the integration stage, and therefore an increased amount of interest should be paid into it. (Interview 27.1.2010.)

Expectations: In order to be successful in acquisitions, the acquirer have to be able to close the deal at the right price or when the deal turns out to be unprofitable there should be enough courage to back-up from the deal. Usually the advisors have the experience and therefore can suggest if it is relevant to back away from the deal. When acquirer decides to outsource conducting due diligence, they develop expectations about the fact that advisors can affect significantly to achieving M&A success. (Hyvönen, interview 6.11.2009.)

Advisor A claimed that by using of advisors in conducting due diligence in the context of acquisitions, they have the ability to affect M&A success by that they can deliver extra value to the process. (Interview 9.3.2009)

“An acquisition as a process is tough, scheduled and not even big corporations, even if they have the resources and experts, need extra hands of those who have used to conduct due diligence due to the fact that decision process itself takes a lot of energy from the buyer’s side. The advisors who are used to work with due diligence in acquisitions have found the best practice to find significant matters efficiently and can immediately inform the potential buyer about them.” (Interview 9.3.2009.)

Expectations are defined by also the fact that due diligence is regarded as mandatory on the acquirer’s part in order to ensure the profitability of the investment. This affects the advisors’ involvement that they are expected do the obligatory, short assessment of the target company. According to an advisor expert A, it depends on the scope of the deal what acquirer expects from the service it outsources. Mostly, it is question of doing mandatory financial and legal investigation, obligation of assessment of the target company benefiting the acquirer but also the seller by knowing the facts that the company is sold at a certain price for a certain value so that there is no risk of complaining after the deal. In some cases the vendor conducts the due diligence to find a proper acquirer for the company at an action and sets up a data-room where potential buyers can familiarize to the target company’s information’s during a certain time period and the buyer makes the following procedures of this due diligence to ensure the deal. (Interview 9.3.2009.)

“Let’s take an example of buying a house; it is obligatory to do an inspection of the condition of the house therefore that it is impossible to do it afterwards, meaning after signing the deal. The acquirer therefore needs the third opinion. In addition often the vendor requires the process to be done and mentioned about it in the contract.” (Interview 9.3.2009.)

As referred to the chapter 2.2, the acquirer is under an obligation to make an assessment of the target company prior to the deal. (Blomquist et al. 2001) In addition the acquirer is always buying future uncertain cash inflows that cannot be predicted. In order to control them in the future, conducting due diligence properly is needed. In other words advisor works always in circumstances of uncertainty. (Interview 9.3.2009.)

Essential information: Finding essential information about the future is recommendable when conducting due diligence. Commercial due diligence attempts to discover does the acquired target has potential or not in terms of longitude of 3-5 years. According to advisor D, financial due diligence cannot provide adequate predictions due to that it focuses more intensively to the past. In contrast commercial due diligence concentrates on the future and external factors such as potential markets. On the other

hand the other areas of due diligence such as FDD concentrates fairly much on financial statements and past information, instead the focus should be on external factors such as rivalry, markets and trends. (Koskela, 17.12.2009)

The advisor F as an acquirer did not consider this as an objective when starting the acquisition process, therefore there is still to be seen how the deal turns out to be since there are only four years from the beginning of the acquisition process. (Interview 27.1.2010.)

“Commercial due diligence can be described as an process where instead of turning every stone, every essential stone is turned.” (Koskela, Interview 17.12.2009.)

However, turning every essential stone is not always possible on acquirer’s side. The involvement from the advisors’ side is therefore justified and therefore necessary. Giving thought to the acquirer’s, advisor F opinion about outsourced advisors when planning a strategy, the advisor F commented the use of outsourced help in their acquisition process by: (Interview 27.1.2010)

“Of course it would have made life easier if somebody would have coordinated the whole process, hard to say if it would have paid off, honestly we did not even consider this... ” (Interview 27.1.2009.)

The acquirer, advisor F would have hired extra help for coordinating strategy better. An acquisition process conducted endured longer than expected due to difficulties from surprising environmental factors, that were not viewed important at the beginning of the process. Relevant information about the market, strategy and how to proceed from stage to another took considerably much of their time. The acquirer was not capable of finding the relevant information on time. Therefore, lack of knowhow and expertise caused loss of time and money in terms of the deal. (Interview 27.1.2010.)

4.2 Advisors’ tasks and responsibilities in the areas of due diligence

The scope of tasks and responsibilities of advisory services are defined by tasks and responsibilities in detail by the areas they conduct and how they interact with each other.

Areas of investigation: Ordinarily accountancy firm conduct financial and tax due diligence. Juridical advisors are occupied with the legal dimension. Expert A also found that financial and tax issues are the most important area of due diligence (Interview 9.3.2009). According to acquirer F, they used outsourced professionals as a financial

assistance and trusted its own legal department in conducting legal due diligence therefore evaluating to be pointless to hire an outsourced legal expert (Interview 27.1.2010).

Expert A and F both implied in the interview that the financial issues matter the most. However, this can also have been a result of the advisors' own area of interest and education in addition to professional background of preferring financial facts over other areas of investigation. More or less, advisor F stated that regardless of only using financial assistance, the deal was completed and fairly successful due to that expected numbers in the turnover of the company had finally changed into positive and therefore using financial experts paid off. (Interview 27.1.2010.) The interest was merely a financial one. This raises another question, if they value financial facts over other facts that turned out to be unsuccessful. Can that be regarded as success?

Financial and legal as well as tax due diligence are planned by the book. Experts plan question lists ready and make sure that nothing important is left out from the list. The advisors are grouped and tasks are divided based on the experience and dimensions that are being conducted. According to the interviewed advisor A, the planning cannot be emphasized too much when conducting financial due diligence and question lists are made separately for different branches in order to get information about specific branch, how the branch's profit has developed and therefore make sure that advisor knows about the given task to ensure to be able to draw conclusions about the investigation. (Interview 9.3.2009.) According to expert C, firstly the process of due diligence is planned and most importantly, settled with the client. (Hyvönen, interview 6.11.2009.)

“If it is question of a larger deal, a pre-contract is made to separate what the process will include such as responsibilities, tasks and overall how the process is conducted. The content of the agreement is between the seller and the acquirer to decide and negotiated from the process perspective. Advisor organizes the due diligence work according what is first settled with the client” (Hyvönen, interview 6.11.2009.)

The process proceeds from the perspective of client, what they want, in what scope and what are the critical issues in the acquisition. This stage involves the acquirer deeper into the process and helps it to define pre-settings for the deal. Depending on the business, experts give their effort on dealing special issues and pursue to guide the client to ponder questions relating to their own area of business set by laws and regulations. It is also critical that experts limit their responsibility by defining the procedures in the process that there will be no risks concerning the advisors work. (Hyvönen, 6.11.2009.)

“It is not simply possible to go through all the information that client sees as relevant. Therefore it is necessary to make agreement about the tasks and responsibilities of the due diligence work. Work is done according to the contract.”
(Interview 9.3.2009.)

Organizing advisors own work is relevant. They are responsible for their adequate level of expertise. Defining of resources and organizing the work itself are important in order to receive results. Acquisition target can be a new case for the advisor. This means that relevant information has to be solved in a short time period. Documentation is read and both parties of the acquisition process are heard depending on applying the due diligence on the behalf of the acquirer. After getting to know the documents and the companies in a deeper level, separating less important information from vital information is possible. Therefore, according to the interviewed advisor C who conduct legal due diligence process on the behalf of the acquirer, the due diligence process itself divides into two areas: Going through the material and interviews of the management of the seller company. Overall, how to proceed in the process of due diligence can be in a form of a contract and it is possible to agree on what material is given to use and who is being interviewed. Particularly, this concerns the seller due to what information the target company wants to give to the acquirer. (Hyvönen 6.11.2009.)

In general financial, legal and tax due diligence are being offered at the same time from the same advisory team due to the nature of the process and other dimensions are attached to the process depending on the acquirer’s interest. Advisor A suggested that this way the acquirer receives better service due to the first critical hundred days of the deal during the due diligence process should be covered. (Interview 9.3.2009.)

Interaction: Meetings are held actively among the advisor team in the pre-stage of due diligence. Team should concentrate on working with the big issues that are significant when considering the most problematic questions to which the acquirer needs to hear an answer. Reporting is done when the vast due diligence is brought into a conclusion. Noticeable is that report is the most important aspect in the process in the advisor-client relationship. There has to be taken into consideration the findings of the due diligence process. Findings can be deal breakers, issues that affect selling price, how to share responsibility or warranties given by the seller. Conclusions of whether to buy or the need of change in the contract have been summed in the report and advisors task is to share it forward to the acquirer. Information is shared throughout the areas of due diligence to another if problems and important issues are found. However, more critical is sharing the information to the client. (Hyvönen 6.11.2009) ; (Kaleva 5.11.2009.)

“Experts’ role is to be a professional advisor in sense of knowing and trusting own professionalism in terms of reporting to the client.” (Kaleva, interview 5.11.2009.)

It is an obligation of the advisor to share the information immediately and explain the risks. As already mentioned in the theory, chapter, this is important due to that risks can ultimately lead to a “deal killer”, which end the acquisition process. Therefore the responsibility is that advisor is trustworthy, possesses adequate expertise and experience to explain and make conclusions about the due diligence results. (Hyvönen, 6.11.2009.)

“ Forming the final result of the due diligence report is extremely important therefore that decision makers trust that advisors have covered the primary questions. Executive summary is therefore essential. Explaining the meaning of findings and expressing recommendations are vital. This cannot be emphasized too much due to its purpose for the client. It ought to become a tool that actually creates value for the client” (Hyvönen, interview 6.11.2009.)

Conducting due diligence involves planning and detecting significant risks. However, there is a chance that along the way it is identified problems in some area that due diligence need to be planned carefully partially or all over again. This may result from the acquirer that has a need to widen the search or specify the process. Whereas the first hundred days is critical in the acquisition, the overall due diligence process can last from a week to months depending on the case. Information must be handed out in time but in some cases the seller can stretch the process due to its own personal reasons. The deal implies when the material and information concerning the target company has to be available for the acquirer side. (Hyvönen, 6.11.2009.)

4.3 Advisors’ exploitation of expertise in solving challenges

The findings of the empiric research about the challenges of due diligence process are introduced here. Challenges are key findings that have come fore in the interviews with the experts. The challenges affect both acquirers as well as experts and viewed to ensure the best possible outcome in order to succeed the due diligence process.

Time constriction: The challenges of due diligence process are largely related to the short time period where all the essential information should be able to find of the target company. A hundred day deadline sets a time line during where it is essential to find enough accurate information for the buyer to reach a decision whether to buy or not. (Interview 9.3.2009.)

“Generally, the advisors face great uncertainty when they come with knowledge empty handed into the situation of conducting the process and perhaps knowing nothing about the company. Time constriction sets a frame where they should be able to manage the entity of the process. Advisors’ expertise is therefore an advantage that they have the experience of conducting the processes many times before discovering the essential, over and over again” Interview 9.3.2009.

It is a challenge to find all specific information that is relevant and every fact that affects possibly the buyer’s decision. Therefore information needs to be accurate enough. According to advisors question lists are used as help in order to make sure that nothing important is left out from the investigation. According to expert A, the due diligence conducted and its results can be summed up minimum to a one small piece of paper where there are issues to be solved before buying. This can be difficult task to do due to the time constriction. (Interview 9.3.2009.)

The researcher was surprised about the simplicity of the process that it is actually possible to put everything in a one piece of paper after only hundred days due to the deadline and acquirer should be ready to reach a decision about completing the deal. All of the experts agreed that this is what the client expects and this expectation is realistically reached and even exceeded even though the reports vary in length among different areas of due diligence.

Relevant information: Pre-acquisition phase of the whole acquisition is important. The challenge is to find the essential information while there are not available any information previously about the company and the acquirer or advisors should grasp an overall picture of the target company during this short time period. In addition all the challenges that come fore in the chapter 2.6 during the acquisition, the advisors face the challenge of preventing these problems in favor of the acquirer.

“We as advisors ask operational management to tell general information regarding to the acquirer in order to build a bridge between reading the material and documentation, contracts and business. This is evident for finding relevant information in terms of what is going on in the firm and therefore what is important and less important”. (Hyvönen, interview 6.11.2009.)

On the other hand, according to expert C, the biggest concern in the due diligence is the overflow of information. It requires expertise and experience to find relevant information such as what issues are meaningful for the client. The problems occurred can effect in three ways: the client is aware of the risk factor and client decides not to proceed with the acquisition, knowing the risks the client proceeds with the process or how the risk can be reduced defining which party carries it and proceed with the acquisition process. Informing about the client is vital and risk factors are to be

quisition process. Informing about the client is vital and risk factors are to be discussed beforehand. In addition advisors have to organize their work by choosing the most experienced advisors, planning the proceeding order and efficient division of areas of due diligence. In general, in order to avoid problems to appear during the due diligence process, there is needed a thorough preparation beforehand and everything that concerns the deal and conducting due diligence should be done with care. (Hyvönen, interview 6.11.2009.)

One of the central issues in due diligence is negotiating the price. It is challenging to find a relevant price for the deal. In order to pay the right price, there should be sufficient amount of information available.

“Buyer that has paid the highest price, has paid too much.” (Holmberg, interview 29.1.2010.)

It is essential to consider are the estimates trustworthy and is it possible to find a valuation for the target company. What is too little and what is too much. As a acquirer’s advisors, the task is to exploit investment bank’s expertise by offering the best possible advise on paying the right amount in addition to paying enough of the target company. The responsibility is to be an authentic advisor and help to overcome acquirer’s challenges. (Holmberg, interview 29.1.2010.)

Lack of material: The need of material issue came up in the interview with an expert A that a key issue is for the acquirer company to prepare the material as good as it can in order to benefit from the process more and avoid problems along the way. This helps the experts to conduct due diligence quicker and more properly. The acquirer can possess some important information about the target company that should be gone through with outsourced experts prior to giving the assignment to them. (Interview 9.3.2009.) Keeping in touch throughout the whole process with the acquirer is vital to ensure the continuous flow of information to reach the advisor as well in order to conduct due diligence as properly as possible. The acquirer can possess some important information about the target company that should be gone through with outsourced experts prior to giving the assignment to them. (Hyvönen 6.11.2009.)

Communication: When dealing with advisory teams the issue of communicating is important. Especially communicating the relevant information affecting the decision making process. According to the interviewed C, there should be a constant communication between the acquirer and the expert due to various reasons but to mention one, the acquirer usually conducts business due diligence side by side with financial, legal and tax due diligence which are outsourced. Information should be transferred fast in order to complete due diligence in time before sealing the deal. Communication happens through different channels but long reports are not done as

often as before. To ensure fast service the experts seek key findings and list important factors instead. However, when dealing with multiple parties there is always a risk that the information cannot reach quickly enough or the main points are not being understood. Advisors often get to know the target company and the acquirer well. There is a chance that knowledge; especially tacit knowledge is created which involves the companies. Especially if dealt with similar companies in the future advisors learn about the branch quite a lot during a due diligence process and have the advantage to move on the knowledge to a next deal. (Hyvönen, 6.11.2009.)

In addition to the acquirer, similarly the advisors are faced with the same challenges in the due diligence process in addition to those that affect the client relationship. The decision to outsource means a chance for the acquirer to leave its main problematic issues to the advisor to solve.

” The are two vital challenges to identify in the process of due diligence: Finding the relevant and irrelevant information and informing about the client as quickly as possible about them in order to take them into the decision making process ”
(Hyvönen, Interview 6.11.2009.)

The financial situation of today affects multiple acquisitions. All respondents of the interviews agreed that the financial situation of the economy has tightened. Therefore the number of acquisitions has declined. In addition the financial situation have affected the willingness of the banks to lend money. The buyer needs to have enough credibility and well-built balance sheet, where they have enough debit. Acquisitions have been suffering from economic downturn during the past two years, smaller acquisitions are made and bigger acquisitions have disappeared from the markets. Not able to lend money to acquirers increases the phenomenon of silent markets and therefore it affects directly to the amount of acquisitions made even if acquirer and seller have consented to a certain deal price, the bank financing cannot always be arranged. (Kaleva 5.11.2009). In addition the bank differentiates the competitive acquirers to good and poor. Therefore the poor acquirers do not have equal opportunities for a loan. (Holmberg 29.1.2010).

“The acquirer does not get sufficient finance to acquiring the target if it does not have enough debit on the balance sheet not being therefore a good candidate for a loan. Banks evaluate the candidates and determine the attractive buyers. The history of the finance issues of the company, the buyer itself and their addictiveness of the banks in the future are major concerns that the investment banks are interested in when evaluating good candidates from poor candidates.” (Holmberg, Interview 29.1.2010.)

The major concern has been that the valuations of the companies have loosed its value and therefore the vendors are unwilling to sell it underpriced even though acquirers have been willing to make transactions. The vendors have been unwilling to sell therefore that they would not receive the proper price of their business or company. However, predictions indicate that when valuations are low, the markets will go up and therefore more transactions are gradually made and ultimately the amount of acquisitions is on the same level as before the economic downturn. (Holmberg, 29.1.2010.)

Future challenges: According to all experts, the significance of advisors conducting due diligence will grow its importance along with the growth of acquisitions. Advisors addressed their opinion that the amount of acquisitions will be increased soon. The arising popularity of acquisitions can show other signs of development in the field of M&As. According to advisor A, acquisitions become more detailed, specialized in the future and more expertise is therefore needed (Interview 9.3.2009). In addition legal advisor C (Hyvönen, 6.11.2009) has summarized this well:

” Regulation of specific narrow sectors are increasing continuously in the terms of European Union regulation in addition to incremental growth of knowhow of specific sectors of industries and regulations. The role of advisors will be evident due to diversified world and therefore using advisory services becomes more relevant.” (Hyvönen, interview 6.11.2009.)

The globalization sets its restrictions in the form of regulations but on the other hand provide possibilities to the companies that are for example entering to new markets. The role of advisors is to educate themselves frequently and challenge their level of knowhow constantly. (Hyvönen, interview 6.11.2009.)

5 CONCLUSIONS

The conclusions are divided into theoretical, managerial recommendations and suggestions for further research. The dialog of theoretical discussion consists of theoretical frame, empirical research frame and analysis of combination of them. In addition researcher suggests some guidelines for the management on the basis of the dialog.

5.1 Theoretical discussion

This research discusses about the role of advisory services in conducting due diligence in the context of acquisitions and base this chapter to discuss about the research findings reflecting what is reviewed in the theoretical framework in the light of empirical findings. This research aims to discover the factors affecting the role of advisory services. The conclusions about the role of advisory services conducting due diligence in the context of M&As is described in the next figure. The findings of the empirical research declared that, in addition to features affecting advisors' role in conducting due diligence: Involvement, tasks and responsibilities as well as exploitation of expertise, the acquirer itself affects considerably to the due diligence process. Due to that due diligence is not required by the law, the acquirer can decide itself which extent, what scope to conduct and exploit its expertise by preventing problems in due diligence process. Therefore acquirer's own capabilities determine the role of advisory services (Figure 6).

Next acquirer's features affect the role of advisory services:

1. Acquirer's involvement in the process
2. The acquirer's own expertise in acquisitions
3. The ability to discover problems

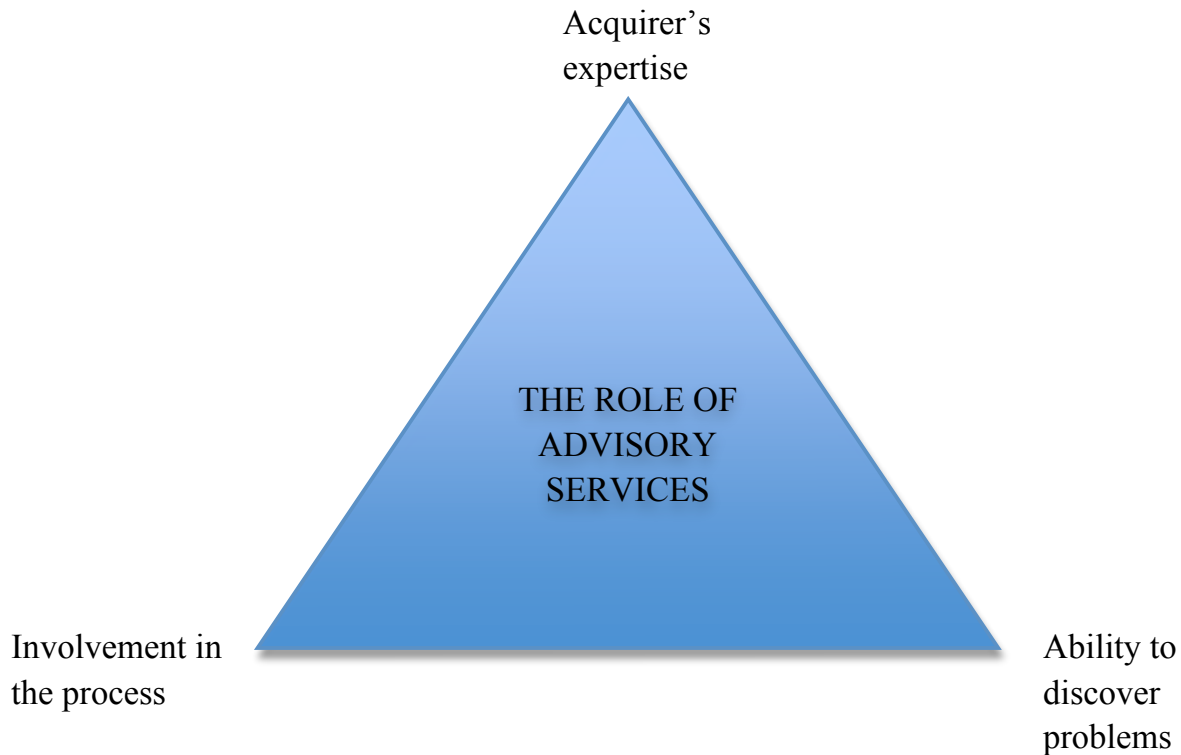


Figure 6: Acquirer's features affecting to the role of advisory services

It is evident and proven in this research that advisors have the expertise to conduct the due diligence process and have knowledge and tacit knowledge of different areas of due diligence. These are important aspects of the expert's work. In other words expert's own triangle is describing its capability to which extent perform its role which is attached to acquirer's features (Figure 7):

1. Advisors' involvement in the process
2. Tasks and responsibilities of advisors
3. Exploitation of advisors' ability to solve problems

The list of factors defining the role of advisory service, have been described in the figure 5, in the chapter 2.8 of theoretical framework. The factors affecting advisory services' role are partly dictated by the acquirer who hires an outsourced advisor to conduct the investigation: their involvement in the process, internal expertise of acquisition and due diligence processes in addition to discover problems on its own. Acquirer's and advisors's triangles combined define ultimately the role of advisory services in each specific case therefore that each due diligence and acquisition process is different.

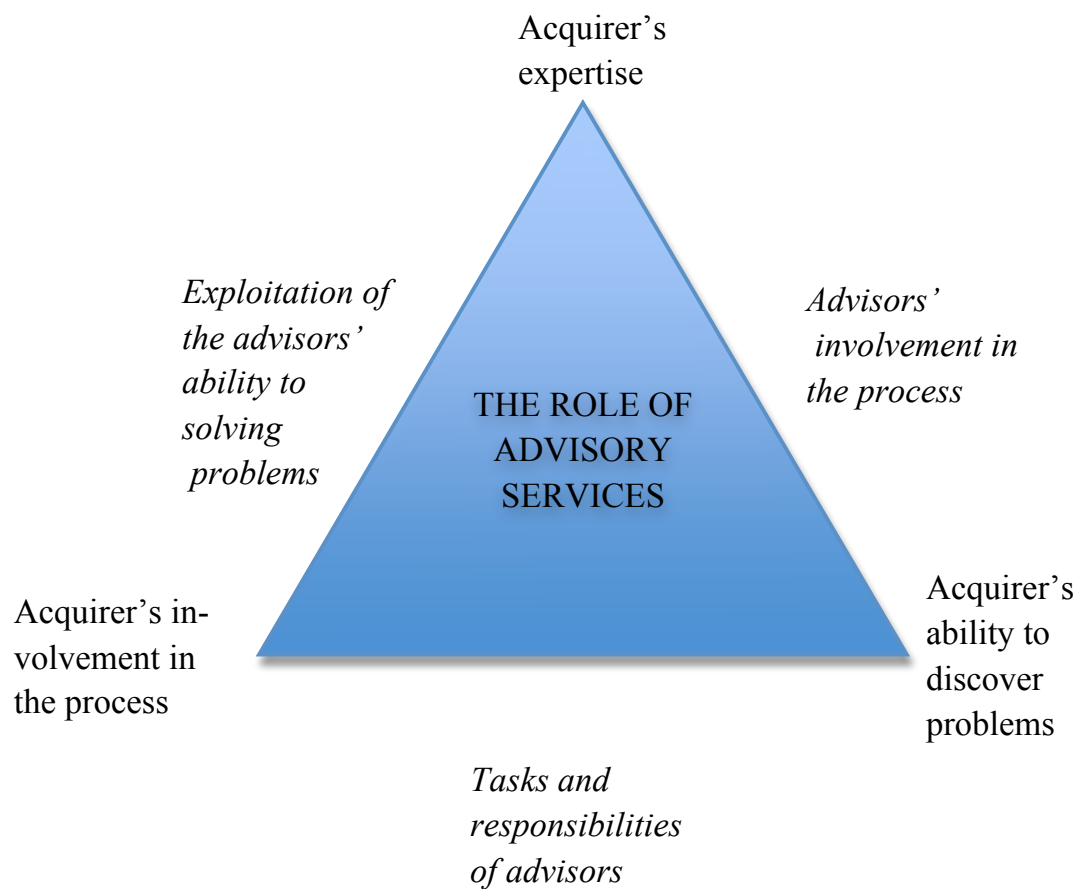


Figure 7: Factors affecting the role of advisory services in conducting due diligence

5.1.1 The involvement and contribution of advisors in the process of due diligence

This study reflects this sub object more carefully through examining the acquirer's involvement throughout the due diligence process as a key factor of advisors' contribution to the whole process.

The theoretical discussion confirms partly what is also empirically observed about advisors' role conducting due diligence in the interview made with the experts from various advisory service companies. The importance of conducting due diligence carefully is important in order to reach success in acquisitions and according to theory about due diligence, it makes sense to outsource the process due to various reasons such as acquirer lacking knowhow about the target industry or simply as wanting to concentrate on its core activities. Tacit knowledge is the reason why outsourced advisors are used and therefore why they are good at it what they do. When conducting

are used and therefore why they are good at it what they do. When conducting due diligence, tacit knowledge is accomplished through experience and usually advisors have accomplished it by performing several acquisitions and due diligence processes during their career. On the basis of the theory, the advisory services seem to play crucial role in conducting due diligence and detecting problems on the behalf of the acquirer. In addition the theoretical and empirical evidence show that the due diligence process should be attached to the acquisition process from the start of the acquisition in order to define strategy before entering to search and approach stage. Strategic questions are often left aside when it is question of financial matters although first stage of acquisition process emphasizes the fact that strategic questions and the reason behind the deal should be clarified properly. Advisors act as experienced strategic advantage when it comes to planning due diligence processes. However, acquirer based on its experience can achieve success by using its own knowhow and be able therefore discover problems in the process on its own and due to that due diligence is not legally required, acquirer can therefore decide what extent it conducts the process and whether to include outsourced advisors in it. However, according to findings of advisor involvement, the acquirer should be aware of its own capabilities of acquisitions in order to decide which extent involve advisors.

Expectations about the service provided consists of advisor's expertise, the needs of the client and product being offered, all corresponding each other as much as possible as presented in the chapter 2.4. Proficiency of the advisory service has to be more vast than the acquirer's in order to outsource experts to conduct due diligence. Usually client expectations and needs are often built on the wrong reasons if acquirer itself is lacking expertise in due diligence processes. Advisors do not want to be deciding an important managerial M&A decision on the behalf of the management of the acquirer. Advisor's responsibility is to conduct the investigation as thoroughly as possible in order to support the decision by the acquirer. It is not possible to leave everything to advisors' hands. Ideally, the role of the advisory services is more supporting in planning and executing due diligence than doing the work on the behalf of the acquirer even if this is sometimes the case. Therefore this role depends strongly on the acquirer's needs and expectations about the process. It can desire to participate more into the process and outsource advisory services to be involved in minimum one area of investigation where the acquirer possibly lacks knowhow. The complicated process is to be completed in a short time period and therefore it is not possible to acquirer to do the whole due diligence work alone. The reason why to outsource due diligence is due to experience and knowledge about a certain branch and the ability therefore to transfer the work to another instance who knows better. The interviewees agree that it is possible to draw a conclusion after due diligence whether to acquire or not. At least, this is what the client expects. However, it is not that simple for the acquirer, the lost time equals lost money.

Therefore the acquirer has the key role in deciding what matters the most in the whole process and advisor's is to give thereby recommendations about the target. Acquirer's enthusiasm about the investigation defines advisor's part as a contributor for the whole process.

The role of advisory services is affected by acquirer's and advisors' features. On the other hand, when examining advisor's involvement in the process in detail the role of advisory services is affected by acquirer's features: its expertise and ability to discover problems. The most important issue for the acquirer is to see what kind of expertise is needed for a certain type of acquisition deal in addition to what kind of knowhow it demands, and if it is possible to conduct due diligence on its own. Therefore expectations and knowhow are significant features of advisor's involvement in due diligence.

The role of advisory services consists of a triangle presented before in the figure 7. Defining the features of advisors' involvement is based on a side of a triangle. According to it advisors' involvement is depending on acquirers' own expertise which extent it is able to use its internal expertise, workforce to conduct due diligence and ability to discover problems that is often dictated by its experience in acquisitions.

Advisors' involvement

Acquirer's expertise

Acquirer's ability to discover problems

Figure 8: Features affecting advisor's involvement in DD-process

According to Angwin - Savill (1997), acquirers often have bigger expectations about advisors if it is question of an inexperienced acquirer. Therefore acquirer's own inexperience in discovering problems therefore explains partly advisors' greater involvement in the process. However, according to the theory and empirical evidence of interviewed advisors, the acquirer usually always need some kind of involvement from the advisory services when conducting due diligence therefore that it is a big process and acquirer often need extra hands. This is not necessary in every area of due diligence but in those areas where it lacks knowhow rather than deciding what areas they consider more important than others.

5.1.2 The scope of advisors' tasks and responsibilities

It is not clear what areas of due diligence are to be outsourced. It depends on each case, decisions made by the acquirer whether to prioritize certain areas over others. In addition when due diligence is not legally required, the scope of tasks and responsibilities of advisors vary from due diligence process to another. In addition if due diligence is outsourced due to acquirer's lack of expertise, the scope of tasks and responsibilities of advisors are defined by other reasons.

Cross-border acquisitions differ from domestic acquisitions. This means also different due diligence processes internationally. In addition the scope of advisors' tasks and responsibilities in areas of due diligence depend on the geographical situation, what is the target and where the due diligence is applied. It is clear that target country's regulations, laws, cultural factors influence what kind of advisory services are used in addition to what scope are their tasks and responsibilities in the process. The legal advisors are important especially when it comes to cross border M&As. In addition to acquirers own lawyers there is a need to consult local advisors investigating legal risks and therefore foreign laws are involved. It also depends on the conduct of each country. It is suggested therefore to include area of business due diligence into the process. According to advisor D, the process looks different and different aspects of the due diligence are valued, therefore the acquirer's involvement to the process apart from each other. The researcher noticed the same issues when reading literature material for the research. Literature written in United States or in UK put more emphasis on "softer" areas of due diligence giving more interest on cultural, human resources and commercial due diligence while in Finland the financial, tax and legal issues are considered more important. Here they prefer more mandatory than voluntary aspect of conducting due diligence.

According to theory, typically large advisory service companies are hired for more frequently than smaller companies to conduct due diligence due to their reputation and wider expertise and several other reasons mentioned in the chapter 2. However, interviewing the advisors of advisory services, they agreed that large advisory service companies has more to offer in terms of investigation but they also acknowledged that often the acquirers turn to familiar service providers, in other words they take their business there where they have outsourced other business functions. It is easier to give the task to the instance that have managed financial, tax, legal and used consultancy services before. Due to various reasons the intensity of the advisor and the scope of the process does not depend on whether the process is conducted in small or big advisory firms. Rather than giving the task to large companies the acquirer is more comfortable to use old familiar experts that have used to take care of their other functions that need advisors' opinions or work input. The role of advisory service has enlarged from

individual due diligence process to vast field of managing their clients' business affairs implying that the acquirer is transferring its involvement of its business affairs to advisors that can discover problems better than acquirers themselves.

Advisor B has also stated that advisors usually trust their own professionalism. Their role is to convince about their special area of expertise and therefore the acquirer often prefers to give them the task of conducting a certain area of due diligence. Acquirers therefore lack the ability to detect problems or do not trust their capabilities enough. For instance legal due diligence ensures that a legal advisor is able to control the process by in terms of the contract. In addition empirical evidence revealed that acquirer giving to conduct an area of legal due diligence to an legal advisor, the acquirer wants to transfer that the risk is done on somebody else's responsibility ensuring that the contract, deal and other forms of juridical proceedings are done right in the process. This affects the role of advisory services as the instance that carries partly the responsibility with the acquirer even though it is not the case in reality, it is merely an act of support. The acquirer is only left with safer feeling about the accuracy of the contract and its content.

Financial and tax due diligence are often done side by side as suggested by advisor A and other dimensions of due diligence are connected to the process by arranging meetings and discussing about the results with acquirer and other advisors in the advisory team. This requires greater interaction among different areas. According to the findings, interaction of acquirer and advisory team has a great impact on advisor's tasks and responsibilities. It ensures better results on conducting the due diligence and it is vital in order to advisors to effectively with each others as well as ensure the interaction between the acquirer and the advisor to achieve success in the acquisition process. Responsibilities are shared among the team and acquirer can decide to involve itself more into the process. Acquirer's involvement ensures smoother process in terms of tasks and responsibilities to remove workload from advisors. Smoother process is reached with cooperation. Sufficient amount of interaction is advantageous also due to that the more interaction among the advisory team, the more easier it is to detect problems in the process and to ensure better cooperation. According to advisors the big responsibility of an advisor is therefore to inform the acquirer immediately about risks and if the deal turns out to be unprofitable. Tasks and responsibilities are shared among the whole advisory team in order to achieve better results in terms of completing the acquisition.

The scope of the process itself also depends on the phases conducted through advisory services in the due diligence process and what area of expertise are needed at which stage. The pre condition that pre acquisition phase is crucial is proven by the theoretical as well as empirical research but according to the acquirer the integration stage is equally important. Therefore for example commercial or business due diligence

has a big role in conducting the pre due diligence and it is vital to take into the process. Deciding whether to outsource a specific area of due diligence is to acquirer's to make.

The role of advisory services depends on if are they involved throughout the acquisition in pre acquisition, integration as well as post-integration phase. Evident is that integration phase occupies the advisors the most but in theory pre acquisition and post acquisition phases are equally important. This in turn is also the acquirer's decision if to have external help in all of the above phases. As a conclusion advisors' role can be fairly different depending on each case and acquirer's priorities. It can be said that tasks and responsibilities of advisors are depended on acquirer's involvement in the process and acquirer's ability to detect problems.

Advisors' tasks and responsibilities

Acquirer's involvement

Ability to discover problems

Figure 9: Features affecting advisor's tasks and responsibilities in the areas of DD

While the scope of the tasks and responsibilities differ from country to country, there are some similar factors that define them more in general. Involvement is accomplished through interaction and ability to discover problems can be more effective in different areas in the acquirer's organization. Ultimately defining the tasks and responsibilities of advisory services is depended on the features of acquirer, as the advisors' involvement in the previous chapter.

Acquirer, advisor F relied on that it was able to conduct most of the due diligence areas by its own. It preferred financial issues over other areas of due diligence and as the most critical field to outsource in their process. Evidently, they were under the impression that they lacked expertise in the financial area of due diligence. Ultimately the reason behind to outsourcing financial due diligence is that it is considered as most important area of due diligence. They conducted their own legal and business due diligence as part of their functions and therefore the acquirers own involvement was quite large. As the advisor F has described, it is more reasonable to outsource those areas where the acquirer lacks expertise and knowledge such as business due diligence in this case would have been beneficial to conduct by an external advisor. In legal due diligence the acquisition was more successful and any problems did not occur in that sector. In other words the internal legal department was sufficient to conduct the due diligence.

Therefore the role of advisory services in terms of the scope of due diligence in acquisitions depend on if the acquirer has potential workforce to conduct certain areas and is the acquirer willing to give the task to an external advisory service team as the figure above describes that advisors tasks and responsibilities depend on acquirers own involvement and ability to discover problems.

5.1.3 Exploitation of expertise in preventing problems in the due diligence process

The purpose of due diligence is the evaluation of risks and possibilities in addition to future uncertainty, mentioned in chapter 2.2. The objective of exploiting expertise is to detect challenges, discover risks as well as possibilities and therefore it is important to evaluate what challenges come to fore in the due diligence process. Understanding the pitfalls and risks of the process as well as challenges that advisory services face will lead ultimately to a better outcome.

Time constriction has come up as one of the critical challenges in conducting due diligence. Both theoretical framework as empirical research stated it is impossible to cover all areas in time. Challenges in the pre stage of the acquisition as precontract, overestimation of synergies, organization culture, insufficient planning and conflicting objectives require time in effective problem detecting. Acquirer usually does not have the time and therefore advisory services are experienced professionals to solve these issues that come fore. However, the time is not sufficient either to experienced advisors even they have developed skills to perform due diligence in a short time period. It is important to identify potential risks in the pre acquisition stage and focus on strategic issues because the acquirer is often biased when it is question of the deal. Instead of that acquirer is concentrating on the pre contract, according to empirical research it is more vital to clarify the strategy and concentrate on what the acquirer wants from the process. Initial acquirer's involvement affects the advisor's ability to detect the risks by telling advisory services to focus on relevant information. In order to know what is relevant information, the acquirer should be involved by revealing important details what it wants from the process in order advisors are able to stay in the set timeline. According to expert F, the acquirer has too many issues to manage during the due diligence process and cannot involve the process as much it would desire to do. The conclusion that is empirically made that maybe there is not enough time for the acquirers to conduct other areas of due diligence than financial, legal and tax due diligence and acquirer be on top of them all. On the other hand the empiric research shows that according to the advisors, offering different services offer extra value to the client acquirer, but due to the time limit of the critical 100 days, the assessment often concerns only financial, legal and tax due diligence. This aspect ignores the post-acquisition challenges and human due

diligence that are reviewed as important in the literature but are taken into the process depending on the acquirers' resources and time, not mainly due to they are considered relevant

Instead of finding as much as information as possible, the aim is to find all the relevant information. Time constriction therefore sets a timeline for acquirer to be able to solve challenges in a short time period and therefore it can be a good idea to hire external advisor help. Usually the pre stage challenges are essential to solve due to that they might have an important impact on the M&A success therefore that they require specific thoroughness from which the acquirer may lack experience. As the expert F explained in the interview, the organization cultural, insufficient planning and other conflicting objectives in cross-border acquisition surprised the acquirer in the integration stage. These problems became larger issues than it was estimated because they were not viewed as relevant. This may be a result of neglecting the first stage of the acquisition process. Overestimating synergies can be also a result of focusing on irrelevant issues.

Usually the advisory services have the expertise to pay attention to these issues and can therefore exploit their expertise better in above mentioned fields. How they exploit their expertise to do it, is an interesting sub objective of this research due to that it affects the role of advisors' by simply if given the chance of applying it in the process and acquirers own expertise and experience in detecting problems. The observations about challenges in the due diligence process address that acquirer simply cannot face them alone, especially without experience and expertise, but in addition the advisory services are not able to concentrate on important issues if acquirer does not involve themselves in the process. Therefore the advisors are in the crucial role of conducting larger due diligence process on behalf of the acquirer, finding the relevant issues concerning the deal. In this situation the decision is ultimately the acquirer's to make whether to hire an outsourced advisor to focus and help detect significant risks and possibilities. There are many issues to consider such as conflicting objectives, defining the price to the deal, acquirers' preconceptions and expenses of the whole process. Therefore this decision should be based on the acquirer's ability to solve problems. If the acquirer is not simply skilled enough, it is reasonable to hire outsourced advisors. It depends largely on the acquirer's expertise whether to conduct strategic factors on its own. In addition the acquirer can rather prefer to maintain lower costs having fear of expenses rising too high than doing comprehensive due diligence about the target even if this would provide more accurate results on issues to consider. Acquirer can therefore trust its own ability to discover risks and possibilities about the target and ignore the possibility of outsourcing advisors for example in investigating organization cultural issues.

Advisors' agree that educating themselves is necessary in order to exploit expertise and able to conduct the process for the benefit of an acquirer. Advisors have to have more knowledge than conducting the due diligence service requires. There should be always knowhow in order to be able to transform and apply the service in case of sudden need of special expertise, experience or other form of information. Therefore advisors are facing the challenge of educating themselves constantly and keeping their level of knowledge when the growing demand of expertise will increase in the future. This ultimately is seen as a weakness in the acquirer's expertise, therefore outsourcing it to advisors conducting the due diligence because they are simply able to detect problems better by exploiting their expertise. Exploiting expertise is consisted of the outsourced advisors' strive for efficiency, flexibility and access to the latest expertise, and therefore supported by the empiric findings by that they are significant features of detecting problems.

In detail the exploitation of expertise in detecting problems is abled by the acquirer:

Exploitation of expertise in detecting problems

Acquirer's involvement

Acquirer's expertise

Figure 10: Features affecting advisors' exploitation of expertise in detecting problems

The expert F described an acquisition example of their pursue of entering the Danish markets, buying a business from their competitor who they were already collaborating. Acquirer was already doing business with its competitor until it was pressured to sell its business. Acquirer had also the expertise and it was under the impression that it knew about the target and the relevant issues better than any advisor service provider and therefore decided to plan strategic actions on its own. However, financial matters were outsourced to advisory services. The acquirer thought it would be enough. The field of advisory services was left quite small and therefore the acquirer was faced with multiple problems concerning especially matters covered in business due diligence. Even today, they still face problems that were ignored in the preacquisition stage and perhaps it would be less of a struggle if they had paid more attention to detail then. As a conclusion, there would have been better to exploit the advisor's expertise but since the acquirer's involvement and expertise was quite large by nature, or they were under the impression it was, the advisors' role in the acquisition was quite limited. The company was able to do some kind of due diligence work but ultimately faced difficult challenges throughout the process with cultural and organizational factors. Advisor F admitted it

would have been easier with external help but since they did not even consider it, the process was more complicated than expected due to that they were not able to detect problems as efficiently as advisors perhaps would have and more importantly did not realize that hiring external help would have decreased acquirer's tasks during the phases of integration and post integration. The company was struggling in the integration phase and ultimately success was not reached for a long period of time.

This research indicated that the role of advisors defines through a complex figure where the nature of the due diligence process, the features of the acquirer: acquirer's own involvement, expertise and problem solving abilities in addition to advisors' own features define the role of advisory services in conducting due diligence in the context of advisors. Therefore it is simply on the basis of the acquirers' expectations and knowhow, why the advisors are outsourced and which extent. The scope of their tasks and responsibilities are based on how involved the acquirer itself is to the process and its ability to discover problems and possibilities. How the advisors can exploit their abilities to detect problems is a result of acquirers' expertise, what areas are they familiar with and their own involvement in the process. The role of advisory services is therefore considered to be consisted of above listed factors and features that affect them when conducting due diligence in the context of acquisitions.

5.2 Managerial recommendations

Recommendations are based on the topic and developed to give managerial instructions to describe the role of advisory services of today, what factors affect it in due diligence process in the context of acquisitions as well as to discover essential key factors affecting their role in order to provide best possible service to the client. The managerial recommendations are constructed by conclusions about the research topic and factors, issues that have come up in the conversations with the advisors as well as when reading literature about the due diligence process in the context of acquisitions and the nature of advisory services. Conclusions about financial situation and future challenges are connected to managerial recommendations due to giving advice about making the research current for the reader.

The unsteady financial situation of today is signalling signs of decline in acquisitions but obligatory mergers or necessary take-overs might be happening in the near future due to the poor economical situation while companies are going bankrupt every day. Therefore it is critical to pay attention to the importance of outsourced advisory services because their importance might grow in the future due to the reasons mentioned above. Not only their importance but also the decision whether to outsource is maybe more pondered by the acquirer than before. In addition to importance of the

more pondered by the acquirer than before. In addition to importance of the advisory services, the role of advisors can change in the near future. The role of advisory services has to be compared with the acquirer's own capabilities to involve, conduct due diligence and detect problems. These key factors define the role of advisors' and help them as well as acquirers to conduct due diligence with the best possible workforce in order to complete an acquisition process successfully. It is reasonable to use advisory services in functions, areas where the acquirer needs extra hands in terms of conducting due diligence and completing the acquisitions successfully when is not able to detect problems affecting the deal by its own.

The challenges can turn into more complexes in the future and the importance of knowledge will grow its significance in this turbulent economical situation while the competition will grow among the advisory services. In order to keep up with the industry the advisors, external and internal, have to educate them selves constantly and be aware of the changes involving around acquisitions. At the moment there is a waiting period at the investment markets and advisors need to be on top of the game when the situation is changing around willingness to invest into acquisitions. The anticipating moment on the markers can offer possibilities and threats to proactive acquirers and therefore extra hands are useful to the acquirer. The fear of increased costs and funding for the investments are considered carefully in this financial situation. Advisory teams can ease the situation by providing advice how it is reasonable to act in terms of profitable acquisition.

Acquisitions are to be planned carefully and strategic objectives are obtained only with careful, strategic planning. Strategic planning and execution need professional expertise. If the acquire lacks it, help is to be found among outsourced advisors in order to not fail continuously as statistically proven. The advisors have wider experience concerning areas of due diligence and therefore are more efficient finding relevant information than the acquirer itself without experience about due diligence process in acquisitions and to complete the due diligence process in a restricted timeline. Understanding the challenges of the process is vital and advisors also have the experience to analyze them quicker and more profound than the acquirer itself could. In addition advisors help the acquirer to ultimately successfully close the deal or alternatively give up the deal if the outcome of due diligence turn out to be unprofitable. Deal is unprofitable in a sense for example that price is too high according to valuation or cultural threats are too evident to be ever conquered. The managerial recommendations imply that more attention should be paid on the information available about the target and as well as to the access of information given by the vendor. It depends largely on the vendor what kind of information is given. Mostly, the vendor is responsible for the public information and needs to take the acquirer into consideration when preparing the company ready to be sold. Not all information that is withheld, solely done by the vendor. The acquirer needs to share any relevant information about

vendor. The acquirer needs to share any relevant information about its company to the advisor and its intention to acquire. This concerns, more or less, the outsourced advisors. Therefore it is suggested to increase interaction between the acquirer and the advisor service provider. This ensures more fluent and accurate process quickly from start to finish.

Globalisation and its challenges are becoming increasingly complicated. Organizational culture issues are affecting the M&A success and therefore increases the work load for conducting due diligence. Failed M&As often reflect sloppy due diligence on “soft” issues such as inefficient pre-planning and post-cultural integration. This should push eventually the acquirer to examine the softer issues of the process and therefore outsource to advisors that are experienced and that can provide results fast if the acquire lacks the experience and expertise of cross cultural acquisitions. Theoretical evidence has so far mainly supported performance matters but there are increasingly much about literature about soft due diligence issues that are as important as results in the areas of financial, legal and tax due diligence, as the theoretical framework of this research has presented. As managerial recommendations, as mentioned before the role of advisory services depend on each case separately on the acquirer capabilities as well as what is their role in terms of what areas of due diligence to conduct and therefore what are the biggest challenges in the process. Each situation is to be evaluated as a unique process as the nature and definition of due diligence requires, and therefore all factors are to be taken into consideration that affect the role of advisory services in conducting due diligence in the context of acquisitions as a whole.

5.3 Suggestions for further research

The role of advisory services will include larger, more specific tasks and responsibilities with global specialization in the future. Suggestions for further research is therefore to pay attention to the change of the role of advisory services in the future. Different phases of the acquisition process need to be taken more into consideration. Especially the post-acquisition phase and human integration are increasing their popularity among business literature as well as in practise. Advisory services have to keep educating themselves, learning about the clients and their branch give experience, knowledge and credibility for the advisory services to widen their selection of M&A services.

In addition the significance of particular geographical areas will grow in the future and the challenge for the advisors is to keep up with the development of industries and different clusters as well as develop new knowledge about the companies. More impact should be given also to possible legislation changes among the M&As. Suggestion for

further research how the information and knowledge are possible to put in use in order that the acquirer will exploit from the advisors expertise and advisors are able to put their resources to more efficient use. In addition further research is required to determine the role of advisors in improving the service of other than obligated areas of due diligence and carry out further investigation about “softer” issues of due diligence such as personnel, IT-management and environment due diligence that have become important aspects in acquisitions, especially here in Finland. In addition further research could concentrate its focus on longer-term success having multiple, comparable cases and more profound outlook on how softer due diligence issues impact directly on financial success.

6 SUMMARY

The M&As have raised their popularity during the last 10-15 years. Due to the complexity and financial value of acquisitions, due diligence is conducted in order to complete successfully an acquisition. It is a strategic tool to help the acquirer to succeed in the long run. Mainly it ought to be done properly due to the mandatory, responsibility to assess the target company, but also voluntary aspect of estimating all areas of due diligence of the target company. The purpose is to receive an objective evaluation of the target company, therefore leading to successful due diligence negotiations and, if all goes well, to complete the deal. Outsourced advisors are recommended to use due to the fact that the acquirer is biased when it comes to the deal

The role of advisory services conducting due diligence in the context of M&As is vital therefore that the buyer needs widely information about the target company to evaluate the deal. However, in some cases the seller conducts a vendor due diligence where it needs advisors assistance in evaluating a right price for the company. Therefore the acquirer can receive limited amount of information and have to make the decision on the basis of published information in a limited time period detecting relevant issues from irrelevant. The acquirer relies on the expertise of the advisory services to conduct the due diligence more thoroughly than if the acquirer would do it itself. The advisory services are dealt with similar problems as an acquirer but usually has more extensive experience about due diligence processes. If the deal should be carried out, advisors' expertise will be exploited as a form of a proper investigation in all areas of due diligence, including the voluntary aspects. Foremost academic literature has been paying increasing attention to the soft issues' impact on success. This signifies that instead of only concentrating on financial questions when planning and managing an acquisition, more consideration is now given to organizational, psychological, and cultural questions, among others. The role of advisors and their importance will grow along the trend of due diligence when areas such as financial, legal and tax due diligence are outsourced. In addition business that is also referred as commercial due diligence is equally important, even if not more vital in strategic planning. Therefore more focus is to be put into the role of advisory services and make an strategic advantage on deciding how and which extent to use them in order to be successful in acquisitions, especially focusing on strategic planning in acquisitions therefore that it was clearly a weaker asset than others in the due diligence process.

Tacit knowledge is important factor to take into consideration due to that those experts possess some important information that should be passed on and shared with the acquirer in order to carry out successful acquisition and giving sufficient amount of information and material for conducting the due diligence. Therefore it is vital beforehand to have the sufficient amount of access to the target company in order

advisors ensuring the best possible outcome of the deal. However, it is not possible for the most of the time and therefore the impact of the advisors is crucial.

The role of advisory services has raised its significance among the process of due diligence as strategic advantage, and therefore it is important to discuss about how the role of the advisory services has consisted of. The key factors affecting to the role of advisory services are features of acquirer and advisory services. There are three advisors' features describing the overall role of advisory services: involvement, tasks and responsibilities and exploiting their ability to discover problems or detect them. An acquirer affects the role of advisory services by its own capabilities such as involvement, expertise and ability to discover risks and possibilities. The involvement of advisors' is affected by acquirer's expertise and ability to detect problems, the tasks and responsibilities of advisors are affected by the acquirer's involvement and ability to discover problems and finally the ability to detect problems is as affected by acquirers' expertise and involvement. Therefore factors affecting the role of advisory services form a triangle where each factor is to be considered in the beginning of the process when deciding to outsource advisory services to conduct due diligence and complete an acquisition process successfully.

The empirical evidence pointed out that indeed due diligence can be conducted without extensive help of external advisory services but in order to achieve success in acquisitions their role is increasingly important and outsourced advisors' importance need to be recognized as a part of the acquisition success mostly in strategic planning and including significant issues as cultural integration. Therefore, the role of advisory services should be always considered as side by side with the acquirer's own capabilities in the due diligence process. The role of advisors are becoming more important, helping its client with the strategic decision from the beginning of the acquisition process of which target to acquire to integrating two companies to become one.

The changing economical situation puts pressure on acquirers as well as advisory services. Due to financial uncertainty the acquirers do not have enough credit because banks are unable to finance for the acquisition. However, declining number of acquisitions necessarily does not mean less work. More companies are merging and those that possess good financial situation are taking advantage of cheaper prices by acquiring small companies with poor economical situation. Therefore more concern should be added to current situation and advisors should educate themselves constantly to be aware of the changes in the world economy. Challenges are inevitable and they are to be treated not as hinders but as new possibilities. Globalization has increased the popularity of M&As and more distinctive knowledge should be practised in cross-cultural acquisitions. The role of different advisors with specialized expertise will become more distinct for instance when the regulations change. It seems that the trend

of outsourcing due diligence will be more popular in the future and there will be growing need for advisory services. Current downturn of the economy will eventually end and gradually acquisitions as a transaction are showing signs of reawakening. It remains up to the companies themselves whether to start to grow their businesses sooner or later.

Theoretical discussion about the subject is not adequate and therefore it is recommended to do continuous empirical research about the field of the M&A success and the impact of the role of advisory services conducting due diligence with larger data. This study merely pointed out key factors affecting to the role of advisory services. Strengthening the empirical data would be beneficial by showing that advisory services affects to the success of a M&A when conducting due diligence. A quantitative study would be more valuable by selecting acquisition cases increasing empiric research material and data to show connection that success of acquisitions and the change of the role of advisory services conducting due diligence in the context of acquisitions have correlation in reality.

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**APPENDIX 1: Examples of interview questions by themes of the study, experts
A-E/F**

Background information:

1. Current position and previous experience as an expert of due diligence?

Contributing to planning and execution of due diligence process:

2. What are the objectives of due diligence, how they are reached by advisors? / The objectives in due diligence of an acquisition
3. Why due diligence services are outsourced to advisors? / Why have you outsourced DD-functions, why is it useful?
4. How a due diligence process by advisory services is conducted in your company, the duration of the process, how much are acquirers' involved in the process? / How a due diligence process is conducted in an acquisition case, duration of the process and how much advisors' were involved in the process?
5. What acquisition stage services provided are connected to? / DD-phases connected to?
6. What are the most important factors when planning and executing DD? / ”
7. In what kind of role an advisor sees himself in the due diligence process?

Scope of the due diligence process:

8. What services does your company does provide in due diligence? / What DD-functions have you outsourced and what have the company conducted itself?
9. What areas of due diligence are they connected to?
10. How are the areas of due diligence combined with each other, how are they related?
11. What are the most important areas to be considered in the due diligence process?
12. What is the future of conducting particular areas of due diligence?
13. How much and what kind of information is provided about the target company?

Exploitation of expertise in the challenges of the due diligence process:

14. What challenges does the process include on the perspective of an advisor? / an acquirer?
15. How are they avoided?
16. Significant factors in the process?
17. What is the future of advisors' role in conducting due diligence? / What is the future of performing acquisitions?
18. How does the current economical situation affect conducting due diligence in the context of acquisitions?

19. / Description of an example acquisition process, planning and execution, use of advisory services, challenges and relevant factors affecting the deal, what would be done differently, were goals of acquisitions accomplished?

APPENDIX 2: Operational chart

Purpose of the study	Sub objectives	Theory	Examples of interview questions (Appendix 1)
The role of advisory services conducting due diligence in the context of M&A	Contribution and involvement of advisory services in planning and executing due diligence	2.3 Planning and execution of due diligence 2.4 Experts used in acquisition	Interview questions 2-7
	Tasks and responsibilities of advisory services in different areas of due diligence	2.5 Dimensions of due diligence 2.6 Outsourcing advisory services	Interview questions 8-13
	Exploitation of expertise in challenges of advisory services conducting due diligence	2.7 Challenges of due diligence 2.8 Expertise challenges	Interview questions 14-18