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Abstract

Acquisitions have become part of everyday business life. Companies pursuing cross-border acquisitions usually have the following motives behind the decision; growth, increasing shareholder value and the want to become international. Cross-border acquisitions are the fastest way to enter a new market or strengthen the company's geographical presence in a country. Acquisitions affect customer relationships and create uncertainty among them. Taking a customer perspective in the acquisition process, a company can maximize the value in an acquisition. Having a customer oriented pre-acquisition phase means conducting a thorough due diligence on the target and its market in order to get an idea of the target's business and the viability of the business and possibly identify the target's customers. Having a customer oriented post-acquisition phase involves a clearly and precisely formed integration plan. Important elements in the customer oriented integration are speed of the integration, retaining the right personnel, formulating and implanting a customer retention plan and communication of the acquisition.

The main objective of this study was to find out *"How the target company's customers are identified and managed in cross-border acquisitions"* which will be examined through the following sub-objectives;

- *How does the acquirer identify the target company's customers in the pre-acquisition phase?*
- *How is the significance of the target company's customers assessed?*
- *How are the acquired customers managed after the acquisition?*

The research objectives were examined through several theories, such as general acquisition motive theories, due diligence theories, customer relationship management theories and other theories related to acquisitions. The qualitative research was conducted as a collective case study approach. Four companies, which the researcher chose to keep anonymous, were interviewed using semi-structured interviews.

The main findings were that it is possible to identify customers in the pre-acquisition phase by conducting thorough due diligence on the target company and its market. However, information on the customers is not always available. The main findings concerning managing the target company's customers were that planning and implementing the integration plan efficiently and quickly reassures the customers. Communicating about the acquisition is also very important in the customer's perspective. This study provides better understanding of the customer perspective in cross-border acquisitions, even though the results are not generalizable.

Key words	Acquisitions, identification, due diligence, customer relationship management
Further information	

Tiivistelmä

Yrityskaupoista on tullut osa tämän päivän liike-elämää. Kasvua, markkina-arvon parantamista ja kansainvälistymistä tavoittelevat yritykset tekevät yhä enenevässä määrin kansainvälisiä yrityskauppoja. Kansainväliset yrityskaupat ovatkin nopein tapa päästä uusille markkinoille tai vahvistaa yrityksen markkina-asemaa tietyssä maassa. Yrityskaupat usein vaikuttavat myös yritysten asiakkuussuhteisiin ja luovat epävarmuutta asiakkaiden keskuudessa. Yrityskaupasta saatavan tuoton maksimoimisen kannalta tärkeää on, että yrityskauppaprosessi toteutetaan asiakkuusnäkökulmasta, sillä asiakkaat ovat yrityksen kasvun perusta. Asiakaslähtöinen esiostovaihe käsittää ostokohteen ja sen markkinoiden perusteellisen analysoinnin. Näin ostaja voi saada tarkan mielikuvan ostokohteen liiketoiminnan kannattavuudesta ja sen jatkuvuudesta, markkina-asemasta sekä mahdollisesti tunnistaa ostokohteen asiakkaat. Asiakaslähtöinen integraatiovaihe pitää sisällään selkeästi ja tarkasti luodun integraatiosuunnitelman. Tärkeimpiä elementtejä asiakaslähtöisessä integraatiosuunnitelmassa ovat nopeus, oikean henkilöstön säilyttäminen, suunnitelma asiakkuussopimusten säilyttämiseksi ja kommunikaatio yrityskaupasta. Tutkimuksen ensisijaisena tavoitteena on selvittää *"Miten kohdeyrityksen asiakkaat tunnistetaan ja hallitaan kansainvälisissä yrityskaupoissa"*, jonka selvittämiseksi asetettiin kolme osatavoitetta:

- *Miten ostaja tunnistaa kohdeyrityksen asiakkaat esiostovaiheessa?*
- *Miten kohdeyrityksen asiakkaiden merkitystä analysoidaan?*
- *Miten kohdeyrityksen asiakkaita hallitaan yrityskaupan jälkeen?*

Tutkimuksen tavoitteiden saavuttamiseksi käytettiin yleisiä yrityskauppateorioita sekä teoriaa due diligencestä, yrityskauppamotiiveista sekä asiakkuudenhallintateorioita. Tässä kvalitatiivisessa tutkimuksessa tutkimusotteena käytettiin kollektiivista tapaustutkimusta. Empiirinen aineisto kerättiin haastatteluilla neljässä yrityksessä, jotka tutkija päätti säilyttää anonyymeina.

Tutkimustulosten perusteella voidaan todeta, että yrityskaupoissa, joissa motiivina on joko kasvu tai markkina-aseman vahvistaminen, asiakkaat voidaan tunnistaa toteuttamalla perinpohjainen due diligence analyysi kohteesta ja sen markkinoista. Tutkimustulokset asiakkaiden hallinnasta yrityskaupan jälkeen painottavat integraatiosuunnitelman tarkka suunnittelu ja nopea implementointi vähentävät epävarmuutta asiakkaiden keskuudessa. Asiakasnäkökulmasta kommunikointi yrityskaupasta on erittäin tärkeää. Vaikka tutkimustulokset eivät ole yleistettävissä, tämä tutkimus auttaa ymmärtämään asiakasnäkökulmaa kansainvälisissä yrityskaupoissa.

| Asiasanat | Yrityskaupat, asiakkuudenhallinta, due diligence, tunnistaminen |
| Muita tietoja | |

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IDENTIFYING AND MANAGING THE TARGET COMPANY'S CUSTOMERS IN CROSS-BORDER ACQUISITIONS

Master's Thesis
in International Business

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1   INTRODUCTION

1.1   Background for the study

New patterns of globalisation are fuelling the internationalisation of industry and transforming industrial structure at global levels. The international operations of companies extend beyond traditional forms of trade and investments. Cross-border M&As and strategic alliances are now a generic path to internationalising operations, research and markets, as companies pursue innovative international strategies for complete restructure of their operations, instead of traditional international expansion through exports and investments. The intensity and variety of these international transactions is creating a new worldwide economic system. (OECD 2001)

The amount and value of mergers and acquisitions (M&A) has been increasing during the past couple of decades due to the change of the global business environment (see Figure 1) (Pablo & Javidan 2004, 244). M&As have a long history starting from the first great merger wave in the late nineteenth century, to the instant conglomeration period in the 1960's, the 1970's mega-conglomerations, the divestments and capability-based competition of the 1980's and 1990's, all the way to today's wave of industry consolidation (Lees 2003, 47-61). The value of cross-border acquisitions worldwide have increased dramatically during the period of 1990-1999, from USD 153 billion in 1990 to an astounding USD 792 billion in 1999 (OECD 2001, 15). Even though volumes and values of acquisition deals declined for three years after 2000, when the number of acquisitions reached a record high, they started to increase again and between the years 2002 and 2006 the volume of acquisitions grew by 6 percent per year (Cools, Gell, Kengelbach & Roos 2007, 8-9).
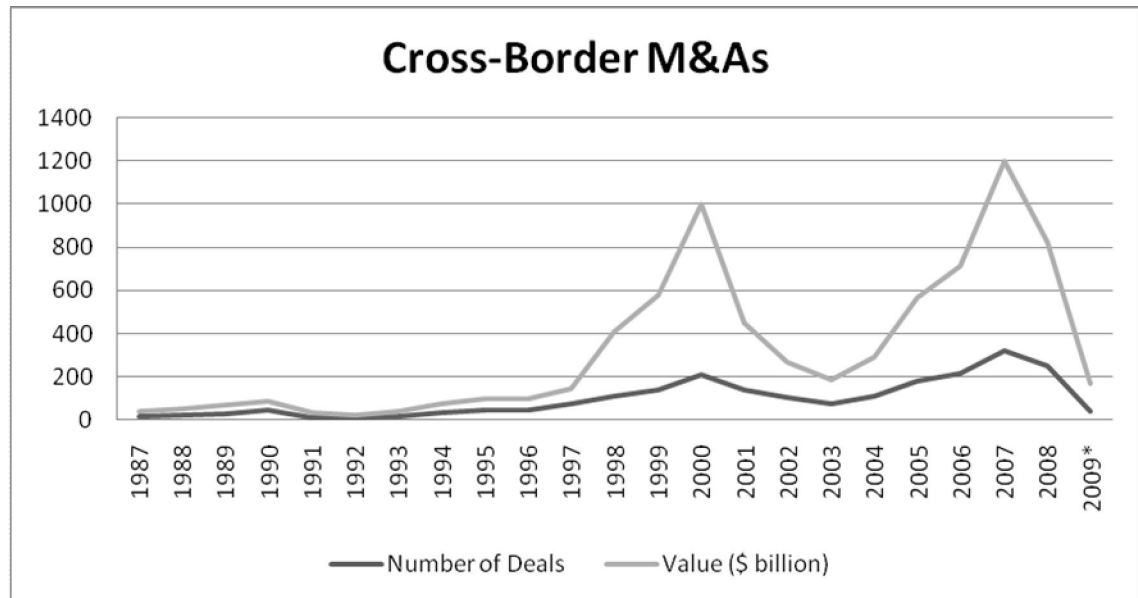
Figure 1   The amount and value of global cross-border M&As (World Investment
               Report 2009, 11)[1]

The recent economic crisis had a strong negative impact on cross-border M&As (see Figure 1). The direct influence is visible as the value of M&As declined in 2008 35% from 2007. There was also a global reduction of mega deals, which are cross-border M&As valued at more than USD 1 billion. There are many factors that contributed to the decline, for example the sharp fall in share prices in the stock markets of developed countries, which depressed the value of M&A transactions. The scale of the fall in share prices was similar in all major developed countries. (World Investment Report 2009, 12)

In today's global business environment growth through acquisitions is an essential element of any corporate strategy (Lebedow 1999, 12). Changes in the world over the past twenty years have altered the way business is conducted. There have been four major changes; the growth of information technology, increasing globalisation, the changing nature of industrial structures and customer expectations. The combination of globalisation with the improvements in what can be achieved using technology in terms of both processes and the final products have affected customer demands and expectations. In addition to this, increasing globalisation has led to more complex business relationships. (Leek, Naudé & Turnbull 2001)

New trade and investment agreements and new technologies may change the business environment to such a degree that the need for new resources becomes an urgent matter for companies who have developed strategies in the context of a particular national economy (Conklin 2005, 39). Companies pursuing cross-border acquisitions

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[1] 2009*, from January to June only

face unique challenges and risks. Differences in national culture, customer preferences, business practices and institutional forces can hinder companies from fully realizing their strategic objectives. In pursuing cross-border acquisitions companies have to consider various conditions, such as country-, industry- and company-level factors, which relate both to the acquirer and target company. At national and industry levels, factors such as capital, labour, and natural resource endowments, in addition to institutional variables such as the legal, political and cultural environment, are highly significant. After completing an acquisition, companies generally must integrate the target company into their operations to realize the potential value of their investment. Cross-border acquisitions can be motivated by wishing to take advantage of a new opportunity or to avoid a possible threat in the future. In addition, acquisitions of companies whose head quarters are in other countries present a very good opportunity for the acquiring company to gain new knowledge and acquire new capabilities. (Shimizu, Hitt, Vaidyanath & Pisano 2004, 310)

Anderson, Havila and Salmi (2001) make an important point in their research on acquisitions. The joining of two companies is always connected to relationships with other parties, the other parties being the customers' customers and suppliers' suppliers. This way the companies become connected directly and indirectly to the business network of other companies. (Anderson et al. 2001, 579) Acquisitions create uncertainty amongst customers. Before the acquisition customers may have had a long relationship with their supplier which means that they are accustomed to a certain policy and procedure on how they are treated and managed. This may change, depending on the integration approach. (Haspeslagh & Jemison 1991, 111) McDougal, Wyner and Vazdauskas (1997, 5) argue that customers, ultimately, are the source of all business growth. The best customers for most companies are usually of greater value than the average ones. However, most managers make strategic and tactical decisions based on an "average" customer. Customers also differ a lot in the value they represent to a company. Dalziel (2007, 159) argues that if the target company's customers are important to the target company's ability to create and capture value, one could expect acquirers to work to maintain the target company's relationships with its customers following the acquisition (Dalziel 2007, 159). However, there is a tendency for acquirers to overlook the target company's customers and channel partners that serve them regardless of the negative impact this neglect may have on the success of the acquisition. The pressures of increasing internationalisation and cost-efficiency due to rising production costs are forcing companies to unite or find a bigger player in the market to buy them out in order to survive under the pressure. Cost synergies are indeed important, not least to help cover the cost of the acquisition transaction. However, cost savings have a logical limit as they cannot ensure long-term sustainable shareholder value, but customers can. Business is driven by customers, or more specifically by

profitable growth. In order to achieve the maximum growth potential of customers, acquirers need to place their customers centre stage and pursue them as systematically as they do cost synergies. (Franken, Friedman, Gell, Hill, Khanna & Strüven 2008, 6) The following chapter will present the purpose, need and research objectives of this study, as well as how these objectives will be addressed.

1.2   Purpose of the study

Mergers and acquisitions is a vast field of research and this study will focus on cross-border acquisitions and how the target company's customers are taken into account both pre- and post-acquisition. The main objective of this study is to find out *"How the target company's customers are identified and managed in cross-border acquisitions"*. This will be examined through the following sub-objectives that were formulated using the phases in the acquisition process as reference.

1. How does the acquirer identify the target company's customers in the pre-acquisition phase?
2. How is the significance of the target company's customers assessed?
3. How are the acquired customers managed after the acquisition?

In addition to the literature presented in the previous chapter, the M&A field of research has focussed on elements of M&A's such as acquisition motives (e.g. Trautwein 1990), knowledge transfer (e.g. Bresman, Birkinshaw & Nobel 1999), human resource management and the human factor in acquisitions in general (e.g. Buono & Bowditch 1989; Cartwright & Cooper 1992; van Dick, Ullrich and Tissington 2006), organisational and strategic fit (e.g. Datta 1991; Pablo, Sitkin, Jemison 1996) and post-acquisition integration (e.g. Shrivastava 1986; Vaara 2003) among others. Research undertaken on value creation (e.g. Seth 1990; Seth, Song & Richardson Pettit 2002) is somewhat related to the customers of the target company, since value creation for shareholders ultimately comes from customers. As Morrall (1996, 19) states that customers, in the end, are more important than economies of scale, operational savings, work force consolidation etc. Therefore there is a need for a study concentrating on how customers are identified and managed in an acquisition, or if they are simply ignored during the process.

How this study aims to reach the research objectives is by studying how acquirers can through due diligence identify the target company's customers and assess how relevant to the acquirer's own business these customers are. The ways an acquirer is able to analyze the business and the market of the target company will be studied. The post-acquisition integration will also be studied from the point of view of how the target

company's customers are managed in the integration, i.e. how the acquirer is able to implement its customer relationship management in the target company and how the customers are included in the integration plan. To acquire validation for the theoretical discussion, empirical data was collected. The empirical data was collected by interviewing managers from four companies operating in different industries, in order to gain an overview of how the identification and management happens in practice.

The structure of this study is as follows. Sections 2 and 3, following the introduction, present the key issues in cross-border acquisitions and customer relationship management to form the theoretical framework for this study. They define the key terms such as cross-border acquisitions and the acquisition process, as well as customer relationship management and present a customer oriented acquisition process. The latter part of section 3 combines the presented theories to form the theoretical framework for this study. Section 4 describes how the empirical research was conducted to reach the set research objectives for this study. Sections 5 and 6 present the research results and analysis, and offers conclusions based on the theory and empirical findings, as well as the limitations of this study.

2   CROSS-BORDER ACQUISITIONS

This section will define and explain acquisitions and the phases in the acquisition process. It is necessary first to define what acquisitions are and explain their nature. This will give perspective to how a company will manage and handle the acquired company and the customers acquired in the process. The process perspective presented in this section is a good way to examine the acquisition as it gives the possibility to break the acquisition into phases and examine each phase separately. To begin, the meaning of the terms acquisition, target, merger and cross-border acquisition are explained.

2.1   Defining cross-border acquisitions

Literature on M&As provides definitions which are essential in this study. M&As take place when companies merge with or acquire control the whole or a part of the business of another company. Cross-border M&As occur when the parties in the M&A are companies of different national origin or home countries (OECD 2001, 14). There is a psychological difference between a merger and an acquisition. A merger is the combining of two or more companies to form a new company and is normally done in a friendly manner between the partner companies. An acquisition on the other hand is a situation where a company acquires another company obtaining all or a majority of the voting stocks of the acquired company. (Hall, 1986) The company being considered for acquisition is called a target, even if the acquisition does not realize. (Shimizu et al. 2004, 309) In this study the term merger is used inter-changeably to describe the friendly combination of two companies as well as the integration of two companies after an acquisition

The dynamics of cross-border acquisitions are largely the same as the dynamics of domestic acquisitions. However, due to their international nature, they also involve unique challenges as countries have different economic, institutional and cultural structures. Cross-border acquisitions can be used to access new and lucrative markets outside national borders as well as expand the market for a company's existing product offering (Shimizu et al. 2004, 309). From a strategic perspective an acquisition can be used to diversify into different markets, expand the company's present business, vertically integrate along industry lines or even provide capital for future leveraged buyouts. The strategic combination of companies can also range from being hostile takeovers to being friendly consolidations. (Buono & Bowditch 1989, 59) An implicit assumption on acquisitions is that through acquisitions the market position of the acquired company can be taken over (Havila & Salmi 2002, 460). Acquiring a viable

company "off the shelf" offers immediate access to their markets, technology, finance and management (Lees 2003, 3). After defining the terms used in this section, the following chapter will explain what kind of acquisitions exist and what drives companies to acquire another company.

2.2   Acquisition types and motives

M&As are grouped based on whether they take place at the same level of economic activity. This means that M&As can be either horizontal or vertical. *Horizontal* M&As involve two companies operating and competing in the same business activity or at least the same kind of business activity. The objective in horizontal M&As is usually to gain economies of scale by forming a larger company. However, not all small companies merge or acquire in order to become larger and hence gain economies of scale. (Weston, Ching & Siu 1998, 5) From the realization of economies of scale arises improved efficiency in production or distribution or both by eliminating, for example overlapping facilities. However, horizontal M&As are considered by antitrust authorities to enable the merging companies to gain at the expense of customers and suppliers by allowing the merging to engage in anticompetitive contracts. (Fee & Thomas 2004, 424) *Vertical* M&As happen when two companies in different stages of production operation merge. There are many reasons why companies want to integrate their operations vertically between different stages. For example, transaction within a company eliminates the costs of looking for prices, contracting and it may also reduce the cost of communicating and of coordinating production. So the efficiency and reasoning of vertical integration is basically the high prices of market exchange and contracting which a company can reduce by acquiring vertically. (Weston et al. 1998, 5)

Acquisitions can also be grouped based on whether they are related or unrelated to the original business of the acquirer. *Related* acquisitions can be supplementary or complementary. The related acquisitions that are supplementary involve the acquirer's entry to new product markets where the acquirer can make use of its existing functional skills and resources. The companies that will benefit most from these kinds of acquisitions are those with a strong competitive position and wish to extend their competence to new areas of opportunity. Related acquisitions that are complementary include acquisitions that add functional skills or resources to the acquirers existing competencies while leaving the product-market commitment relatively unchanged. Companies benefiting most from this kind of acquisitions are those operating in attractive industries whose competitive or strategic position could be strengthened by changing their position in the market. *Unrelated* acquisitions occur when the acquisition gives entry to businesses with product markets unrelated to the acquirers existing

business activities. (Salter & Weinhold 1981, 118) These acquisition types give examples of acquisition motives. However, the motives can be more diverse than the acquisition types imply.

Classical acquisition motives, according to Angwin (2007, 81-82), are motives that characterize the fields of finance, economics and strategy. The finance perspective assumes that shareholder value is ultimately the goal of the company and motives for acquisitions are generally one-time gains (e.g. reducing the cost of capital). The economics perspective regards the company as a homogenous decision making unit whose concern is to maximize long-term profitability by achieving a sustained competitive advantage over its rivals. This may be achieved through cost reduction or increasing market power. The strategy perspective partially overlaps both financial and economics perspectives. It focuses on the position of the company within its industry, where it overlaps clearly with the economics perspective. The strategy perspective overlaps the finance perspective in considering the role of risk and return. The main motive here is often referred to as diversification. (Angwin 2007, 81-82) In addition to Angwin's proposals, Jagersma (2005, 14) states that there are at least six different motives for acquiring a foreign company which can be identified. These are expansion, market entry, scale, geographic, finance and economies of skills. Expansion refers to the expectation that acquisitions result in rapid strong market growth. Market entry means that acquisitions enables market entry without extremely high initial expenditure. Acquisition can be a way to avoid the cost of market penetration and market development. What is meant by scale is that cross-border acquisitions make it possible for companies to gain critical mass in a short period of time, because a certain minimum size is required from the company to keep up with its competitors. The fourth motive implies that a company that has spread its operations geographically is less vulnerable to competitors. Finance refers to attaining local "cash cows" through acquisitions. Finally economies of skills imply that as a result of acquisitions companies can benefit from the exchange of experiences, skills and capabilities across geographically spread segments. (Jagersma 2005, 14) The motives described are summarized in Table 1.

Table 1   Motives for acquisition

Classical motives for acquisitions (Angwin 2007)	Motives for acquiring a foreign company (Jagersma 2005)
Finance • Increase shareholder value through e.g. reducing cost of capital	*Expansion* • Achieving strong market position quickly
Economics • Maximization of long-term profitability • Competitive advantage through cost reduction and increasing market power	*Market entry* • Penetrating new markets with lower initial expenses
Strategy • Overlaps with finance and economics perspectives • Main motive diversification	*Scale* • Gaining critical mass quickly
	Geography • Spreading operations geographically reduces vulnerability
	Finance • Possibility to acquire local cash cows
	Economies of skills • Benefiting from the exchange of skills and capabilities

Motives for cross-border acquisitions interact and are complex by nature. Pursuit of cost-savings through economies of scale is usually the main motive in national acquisitions. Cross-border acquisitions, however, are more often about growth (see Table 1). An acquisition as a means of geographical expansion is made appealing by direct access to customers, products, brands, distribution channels and market knowledge. The possibilities for increasing revenues can come from cross-selling products, the exchange of knowledge on markets or technology, or the ability to offer existing customers more comprehensive global coverage. Most importantly, when the

market in question is growing at a rapid pace, first movers have access to more and better deals than will be available for those who follow. The key to success is to understand what makes cross-border deal making different. (Firstbrook 2007, 53) Cross-border acquisition can be seen as an effort to reduce the uncertainty that arises from competition and resource exchange with other companies. Going abroad for the first time, a company is expected to face a high level of uncertainty and is therefore likely to need the information stock and lower level of uncertainty obtained by entering a market through an acquisition. (Forsgren 1989, 146-147)

Acquisitions also tend to be more opportunity driven than other corporate resource commitments. Information access and handling are much more constrained in acquisitions than in internal investment decisions. Critical information about the target's customers, technologies, market demand, finances, for example are often proprietary and the target company is unwilling to share this information with potential acquirers, because it could be used against them if an agreement fails through. The characteristics of acquisitions are their sporadic nature, their challenge to the existing strategy and organization, their opportunity driven nature, the speed required for decisions, the limited access to and processing of information and the magnitude of the investment, combine to make acquisition decisions more risky than internal investments (Haspeslagh & Jemison 1991, 52-55). There are a number of factors to consider when deciding to make an acquisition. As much as a company may wish to optimize the timing of its decision, the fact is that in many cases market circumstances will dictate the specific timing of a deal (Cools et al. 2007, 26). As mentioned earlier, there seems to be clear evidence that acquisitions tend to fail. However, this depends on how a company defines failure. If failure is used in an extreme sense, such as the sale or liquidation of the business, then the rate of failure is relatively low. If failure is the inability to attain financial objectives, then the rate of failure is high (Hopkins 2008, 6).

Companies pursuing cross-border acquisitions usually have the following motives; growth, increasing shareholder value and the desire to operate on an international level. Internationalisation especially, is the main motive when a company is acquiring outside its national borders for the first time. Embedded in the desire to grow internationally are the motives presented by Jagersma (2005, 14) (see Table 1). There is an indirect customer or supplier dimension when the motives driving acquisitions are market shares and synergies. Increasing market share implies a possible transfer of customer base and cost synergies, which on the other hand may indicate changes that would affect suppliers. (Öberg & Holtsrtöm 2006, 1268) Considering the economies of potential synergy, there are more opportunities for gain when the target is related (i.e. in the same industry, a supplier or a customer) rather than completely unrelated (Whittington & Bates 2007, 43). In addition, the drive for a company to pursue an acquisition may come from the actions of a competitor, for example if the industry begins to consolidate. The

motive in these situations is usually self-preservation that is aroused by the fear of being taken over. (Angwin 2007, 90) Shrivastava (1986, 73) sums up the general objectives of acquisitions which also reflect the motives for acquisitions. Acquisitions are, in many cases, part of an overall strategy for growth or diversification. A variety of motives have lead to acquisitions, such as the increase of market share, reduction or elimination of competition, quick and economical entry into a business, reduction of overdependence on geographical presence, the acquisition of new technology, exploiting multiple synergies and the desire to grow rapidly. He also points out an important fact that the need for and type of integration is primarily bounded by the motives of the acquisition. (Shrivastava 1986, 73)

Acquisition is the fastest way to enter a new market or strengthen a company's geographical presence in another country. Increasing shareholder value is also one of the main motives for pursuing cross-border acquisitions. When the home market becomes saturated or mature enough, companies may seek further revenue outside the home country. Embedded in these motives are also the customers. Entering new markets or strengthening geographical presence can be said to mean acquiring more customers, as new markets bring new customers, and strengthening presence could mean acquiring a competitor and hence accessing their customers. The customer focus on pre-acquisition is dealt in more detail in section 3. Even though it is possible to separate different motives for cross-border acquisitions, one can conclude that they tend to involve more than one particular motive. Once a company has defined in their strategy to pursue cross-border acquisitions, the company needs to plan the acquisition process and begin to look for potential targets. The following chapters will deal with the acquisition process step by step, beginning with the process approach.

2.3   The process approach to acquisitions

Jemison and Sitkin (1986) suggest that acquisitions should be seen as processes. The acquisition process has distinctive characteristics that may affect important organisational activities and outcomes. Acquisitions are strategic, complex and for most firms they occur sporadically. They also affect various stakeholders and actors whose involvement is temporarily and functionally divided. (Jemison & Sitkin 1986, 161) Even though better acquisition outcomes are associated with selecting a better target, or negotiating a better financial deal for example, the level to which these events are likely to occur is dependent on the elements of the process used to make and implement acquisition decisions. The process view suggests that the content of the acquisition decision forms the degree of success of the acquisition. However, the degree to which

that potential is realized is affected by the acquisition process. (Pablo, Sitkin, Jemison 1996, 724)

From many different acquisition processes described in literature the process identified by Javidan, Pablo, Harbir, Singh, Hitt and Jemison (2004, 252) was chosen for this study. The four phases of the acquisition process are: strategic thinking and target identification also called pre-acquisition, due diligence, negotiations and post-acquisition processes. Strategic thinking involves developing criteria, ways to identify potential targets and also the reason why a company should acquire another. The main drivers are said to be synergies and strategic fit. Selecting the target is a crucial concern in the due diligence process. Depending on the acquisition motives the acquiring company searches for target companies with different characteristics, for example size, complementary resources, local network ties. (Shimizu et al. 2004, 330) The stages in the acquisition process (see figure 2) proposed by Whittington and Bates (2007, 28) are by nature the same as the phases proposed by Javidan et al. (2004, 252).
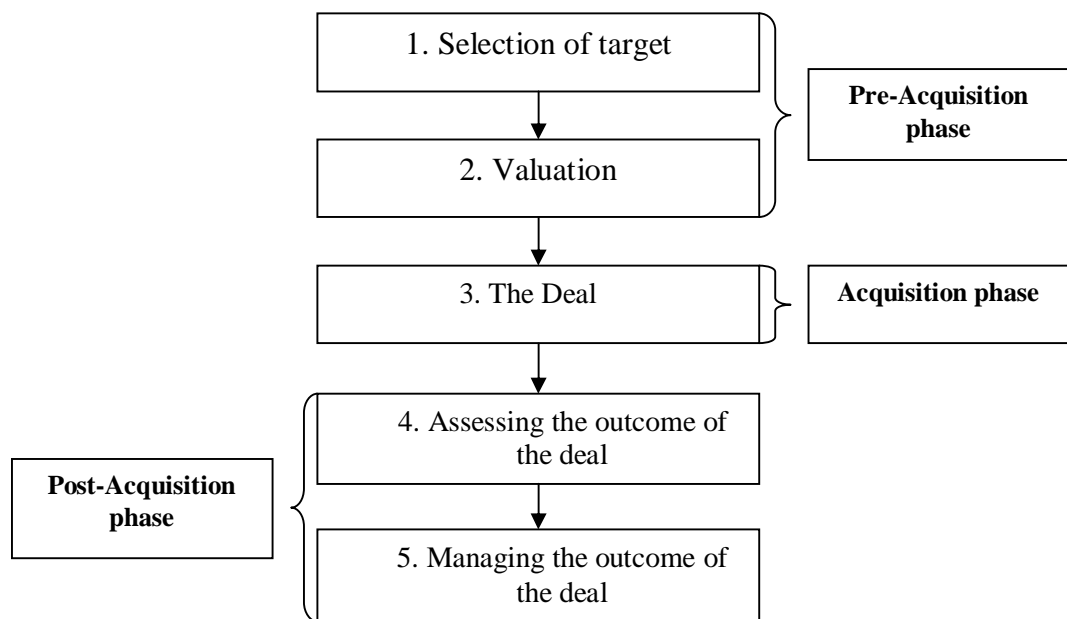
Figure 2   Stages in the acquisition process (Whittington and Bates 2007, 28)

Figure 2 is a simplified version of the whole process where stage 1 and 2 represent the pre-acquisition phase, stage 3 represents the acquisition phase and stages 4 and 5 represent the post-acquisition phase as identified by Javidan et al. (2004, 252). It is difficult to separate stages 1 and 2 as there has to be some sense of value in mind during the selection process. It may be that a number of potential targets make strategic sense and the choice can be made only after the target's value to the acquirer is calculated and

compared with the current market capitalization (Whittington & Bates 2007, 30-31). Each of these phases will now be discussed in further detail.

2.3.1 Pre-acquisition phase

The pre-acquisition phase involves selecting the target and valuation (see Figure 2). Forming the corporate strategy to include acquisitions in order to attain the desired growth or expansion and choosing the right targets are also a part of the pre-acquisition phase. However, these elements were discussed previously in chapter 2.2. This chapter will focus on the step that takes place after the decision to pursue an acquisition is made and a suitable target or targets have been found. This chapter also gives the context to identifying the target company's customers in the pre-acquisition phase. The customer focused pre-acquisition phase is discussed in further detail in chapter 3.3.1.

Due diligence is the phase where the company may already have a few potential targets in mind and it needs to make an assessment of each target (Javidan et al. 2004, 253-254). Due diligence plays an important role in acquisitions. It is intended to be an objective and independent examination of the target company which focuses on financials, tax matters, asset valuation, operations and the valuation of a business and provides assurance to lenders, advisors and also the acquirer's management. Other areas examined include the industry of the target, how the target competes with its current and potential competitors, history and development of the target and the quality and competencies of the management and personnel. Effective due diligence should find issues that could potentially end negotiations or potentially lead to the failure of the acquisition during the post-acquisition phase. (Angwin 2001, 35)

Between recognizing the potential value of an acquisition and achieving a new and fully integrated enterprise, is a dangerous middle ground where the probability of it all going wrong is high. As acquisitions become increasingly complex, the importance of thorough due diligence becomes more evident. The danger is not that companies fail to undertake due diligence, but that they fail to do it thoroughly enough. Cross-border transactions are intrinsically riskier than those within a single country. (Perry et al. 2004, 12) Limiting the due diligence process to an evaluation of financial statements, management and physical assets leaves the acquisition process and more importantly, the acquirer, with severe vulnerabilities. It is essential that the due diligence process goes beyond the obvious analysis and includes a detailed and thorough review of the markets and competitive environment of the potential targets. (Lebedow 1999, 12) Lees (2003, 96) found that acquirers rarely investigate these other factors about the target. The majority of acquirers relied solely on financial and commercial data and waited until after the deal was made to fully investigate what had been acquired. Some of the

biggest problems arose from legal and finance areas, for example dishonest representation of profit forecasts, system capability and new product development. Therefore it is important to take into consideration information about the target, other than just the financial aspects. (Lees 2003, 96) The information collected and the decisions made in the due diligence phase constitute the input to the next phase which is the negotiations. In this phase the parties need to agree on the premium, price and conditions of the sale. (Javidan et al. 2004, 255)

Due diligence is an important element of the pre-acquisition process; one could say that it is even a vital part of the process. It is important to do a thorough due diligence in order to minimize risk and the potential for the acquisition to fail. After having conducted a thorough due diligence the acquirer can form an idea of the target's business and how viable the business is. This helps in the negotiations to set a purchasing price for the target. The following chapter describes the acquisition decision and the acquisition justification.

2.3.2 *The acquisition phase*

Acquisition decision making is often described as a step-by-step analytical process that begins with the acquisition objectives and passes through phases of systematic search and screening, strategic evaluation, financial evaluation and negotiation (see Figure 2). However, both the purpose and nature of acquisition decision making is more complex than that. Although the acquisition process can be seen as very rational, it is not neatly analytical and segmented. Acquisitions are resource allocation decisions and like other resource allocation decisions they involve the perception of an opportunity, its evaluation and the building of a lasting commitment to it. (Haspeslagh & Jemison 1991, 41-42)

A truly planned acquisition involves the systematic implementation of a well defined strategy, resulting from the formal planning process or from a formal search or screening process (Haspeslagh & Jemison 1991, 46). Efficient systems for identifying and screening targets have four significant characteristics. First of all, they need to provide means of evaluating the target's potential to create value for the acquirer's shareholders. Second, they must be applicable to each company's own special needs. Relying on some checklist's universality is a sure way to place an acquisition in jeopardy. Third, since many of the structured frameworks of analysis have the risk of encouraging mechanical solutions to complicated policy issues, these formal screening and evaluation procedures should not be allowed to replace informal and spontaneous contributions to the decision making process. Finally, an efficient acquisition screening

system should serve as means to communicate corporate objectives and personal knowledge among those involved in the process (Salter & Weinhold 1981, 117).

Acquisitions can also be opportunistic - triggered by an opportunity, rather than any proactive search. Most acquisitions, however, fall somewhere between opportunism and planning which means that the acquisition idea may have been suggested and promoted as an opportunity in a situation in which some broad idea or direction was considered. A strategic acquisition, however, where the justification process results not only in approval of the acquisition, but also in clarification of a strategy within which the acquisition could fit and on the basis of which the integration could be guided (Haspeslagh & Jemison 1991, 46). Choosing a particular acquisition strategy depends on identifying the way that best uses the acquiring company's existing asset base and resources (Salter & Weinhold 1981, 118). An acquisition's ability to contribute to the acquirer's strategic purpose depends on the level of strategic and organizational fit present in their situation. Strategic fit entails an acquisition's ability to advance either the acquirer's overall corporate strategy or business unit strategy or both. (Pablo et al. 1996, 728)

The acquisition decision process, and the justification to what it may lead to, is the first major challenge in managing acquisitions. A well reasoned justification may improve the possibility of value creation and that the benefits are not let go in advance, and that the potential benefits are actually realizable. Acquisition decisions are particularly demanding for the company due to the unique characteristics which make them more risky than internal investments, such as resource allocation. (Haspelsagh & Jemison 1991, 56) Risk plays a part in every strategic decision as there is some level of uncertainty associated with the outcome of the decision, and some outcomes are more desirable than others. In acquisitions where strategic fit is greater involve less risk than those acquisitions where the fit is lower. (Pablo et al. 1996, 724-728)

Acquisitions are a complex process which affects the whole organization as the resources required to execute an acquisition are great. After the decision to acquire is made and the deal signed the post-acquisition phase, i.e. integration, begins. However, the integration the pre-acquisition and acquisition phases imply that the integration is planned along the way as the elements required for the strategic and organizational fit are thoroughly examined. The following chapter discusses the post-acquisition phase in further detail.

2.3.3   *Post-acquisition phase*

The last phase is the post-acquisition phase, which is primarily bound by the objectives of the acquisition. Although in theory integration should result in benefits, in reality this

might not be the case. The drawbacks associated with the integration of operations, for example, can result in the acquiring firm being unable to effectively manage integration of the target. (Datta 1991, 283) There is not one best way to integrate an acquired company. Integration design and plans depend on the context of the deal i.e. the acquirer's strategy, the past performance of the acquired firm, the size of the acquired company, the extent of forecasted synergies and whether the acquisition was friendly or hostile (Very & Gates 2007, 182). Integration is a crucial part of the whole acquisition process. Therefore the actions for achieving integration should begin before the acquisition is finalized. The integration should be phased over time to avoid sudden changes. In the pre-acquisition phase it is prudent to prepare the integration by engaging the managers who will be responsible for managing the acquired company in the acquisition analysis and decision making. Involving these managers in the acquisition screening process facilitates this. (Shrivastava 1986, 74)

Cross-border acquisitions pose enormous challenges, in particular in the post acquisition phase (Shimizu et al. 2004, 308). The essential task in any acquisition is to create value that becomes possible when the two companies are combined, value that would not exist if the companies operated separately. One point of view as to how value can be created is by transferring strategic capabilities. Such capability transfer requires creating and managing interdependencies between both companies. The nature of interdependence in an acquisition depends on how value will be created. There are three types of capability transfer which are resource sharing, functional skill transfer and general management capability transfer (Haspeslagh & Jemison 1991, 139–141). A company is a social entity with a range of important internal and external relationships that are essential to the exploitation of existing capabilities and the development of new ones. These relationships need to be maintained subsequent to acquisition, to preserve the target company's ability to innovate and compete (Dalziel 2007, 157).

Shrivastava (1986, 65) argues that the primary problem in managing merged companies is integrating them into a single unit. Integration should occur at many levels. The first step in the integration, which tends to also be the easiest, is the integration of procedures that is achieved by combining the accounting systems of the two companies and creating a single legal entity. Another step is integrating physical assets, product lines, production systems and technologies. Shrivastava continues to argue that the most critical step is cultural integration. However, not all of these integration types are neither achieved nor necessary for merging organizations to function. The necessary degree of integration is determined by a variety of contingencies. (Shrivastava 1986, 65–66) The degree of integration can also be referred to as types of integration approaches (see Figure 3).

Need for Strategic
Interdependence

	Low	High
High	Preservation	Symbiosis
Low	(Holding)	Absorbtion

Need for
organisational
Autonomy
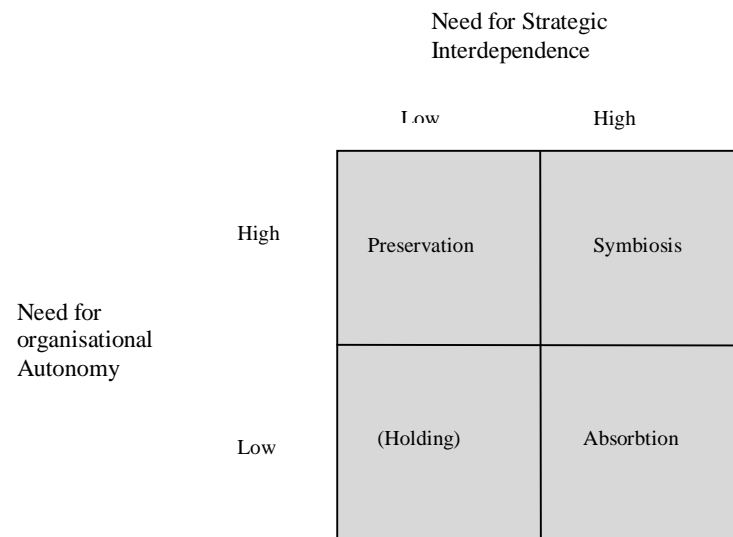
Figure 3   Types of acquisition integration approaches (Haspeslagh & Jemison 1991, 145)

Figure 3 shows the different integration approaches presented by Haspeslagh and Jemison (1991, 145), in light of the relationship between strategic interdependence and organizational autonomy. The three approaches; absorption, preservation and symbiotic, will now be explained more thoroughly.

In the *absorption* integration approach the strategic task requires a high degree of interdependence to create the expected value. However the need for organizational autonomy to achieve that interdependence is low. Integration in this approach implies full consolidation over time of operations, organization and culture of both companies. The elimination of all differences between both original companies may take a long time, especially if it is not a question of integrating a small unit into a larger one, but the combining of two sizeable companies. In absorption acquisitions the objective is ultimately to dissolve the boundaries between both companies. In the *preservation* integration approach there is a high need for autonomy and a low need for interdependence between the combining companies. In this situation the main task of integration is to keep the source of the acquired benefits intact. Deterioration in the acquired company's way of doing business i.e. management, practices or even motivation may jeopardize the success of the acquisition. It is important to understand how sufficient value can be created to offset the acquisition premiums paid. The *symbiotic* integration approach presents the most complex integration challenges. They involve high needs of both autonomy and interdependence; because at the same time as substantial capability transfer is required the acquired capabilities need to be preserved

in an organizational context that is different from the acquirer's. In symbiotic acquisitions the two companies first coexist, then gradually become more and more interdependent. (Haspeslagh & Jemison 1991, 146-149)

Even in partial levels of integration, the acquirer will probably recognize that it has something to learn from the acquisition, however, functions will only be centralized if the acquirer believes it to be advantageous for the whole corporation. At the highest level of integration, which the absorption integration approach refers to, all subsidiary functions are absorbed to the acquirer. In service companies brand names may be kept if they are strong enough, but they may be discontinued after a transitional period. The acquirer needs to exercise some control over the acquired company which is acting in the acquirers name and using its resources. (Child, Faulkner and Pitkethly 2001, 96)

Acquisition integration is far more risky than many other undertakings. Making an acquisition means taking in a company that the acquirer has little information about. Due diligence procedures help the acquirer to get a better understanding of the strengths and weaknesses of the target and a better understanding of its compatibility with the acquirers strategy. Whatever the effort spent on due diligence, the acquirer has limited access to the soft characteristics of the target company, for example the culture or decision-making process. It is difficult to get an overview of all the risks that are inherent to the integration, because of the low level of knowledge about the target. Achieving a successful integration involves the combination of systems and operations of the merged companies at the operating, management control and strategic planning levels. The aim of this kind of integration is to homogenize and standardize work procedures. Physical integration of resources and assets usually accompanies procedural integration. It involves the consolidation of product lines, production technologies, R&D projects, plant and equipment as well as real estate assets. Asset continuity ensures that the companies have enough in common to be able to use each other's resources. A typical problem in post-acquisition is achieving the synergistic objectives of the acquisition. Acquisitions are often motivated by the potential synergistic operation between the companies. The potential of sharing mutual resources is often implicit in many acquisitions. However, sharing and mutual exploitation of common resources does not occur without joint effort. The long-term strategy for exploiting synergies must be communicated to all relevant members in the organization. (Shrivastava 1986, 68–69)

In the end, the way integration is implemented, defines the outcome of the acquisition. Successful integration begins even before the deal is made, in the pre-acquisition phase, and requires both companies to work together in order to achieve the set goals. The integration varies, depending on the approach the acquirer chooses. In the absorption integration approach the target is fully integrated to the acquirer and all boundaries between the companies are dissolved. In the preservation integration

approach, the target company's core elements are kept untouched in order not for the acquired company's way of doing business, which is the source of the acquisition benefits, not to deteriorate. The symbiotic integration approach is a combination of absorption and preservation integration approaches. The acquirer should have a plan what they wish to achieve in the acquisition and plan the integration accordingly. The integration plan requires revision during the process as new information about the target is received. The information found in the due diligence must be incorporated to the integration plan. In cross-border acquisitions this becomes very important as the due diligence involves cultural, environmental and regulatory issues that have to be addressed in the integration phase.

2.4   Evaluation of the acquisition outcome

Even though empirical research, as mentioned in the introduction, reveals that most acquisitions fail, it is important to understand that failure does not necessarily mean a formal breakdown. The failure of an acquisition can mean that the results achieved do not meet the desired level which usually means the harnessing of synergy effects is not managed. (Pack 2002, 153)

Wexler and Connor (2007, 80) and Pack (2002, 153) argue that most of the acquisitions which failed, or were disappointing, did so due to over-valuation, over-payment and over-leverage. When due diligence is done well it can help to differentiate those companies for which an infusion of capital makes sense from companies where more capital will simply hide the deeply rooted and fundamental deficiencies in their operations and finances. Doing a thorough transactional due diligence helps buyers as well as sellers to identify weaknesses and gaps which can be fixed or explained, limitations which can be used for negotiating leverage. Due diligence allows the buyer to discover all the vital information before closing the deal. This then allows the buyer to either withdraw from the deal or adjust the valuation due to uncovered weaknesses to, before the deal proceeds. In a wider sense, due diligence is a crucial risk management tool for companies which are preparing to consummate a transaction. A thorough due diligence process assists analysis and establishment of the difference between good and bad deals and evaluates the risks and opportunities. (Wexler & Connor 2007, 81)

One of the golden rules of a successful acquisition is to concentrate on growth markets, not on targets. To identify the markets which offer the greatest potential for sustainable long term value creation, a company needs to perform a detailed analysis of their industry's landscape. The analysis involves establishing a clear insight of the market, the competitive dynamic, patterns of value creation and likely changes in the industry structure over the medium term. It should also include the future cash

generation and opportunities for new players to enter the market and erode the competitive position of the acquirer (Cools, Gell, Kengelbach & Roos 2007, 28) All in all, locating potential acquisition targets is a fairly easy task. Informal networking usually yields a few, and an external advisor company can bring in others. The most important factor is that an acquisition should fit the acquirer's strategic business plan (DeWitt 2003, 68)

Ensuring that an acquisition is a good fit, not only on paper but as an integrated business, requires that the company goes beyond performing the traditional financial due diligence to performing a detailed value assessment. The insights gathered can be used to value the target, communicate to the board of directors, create a bidding strategy, plan negotiations and accelerate the integration of the target company. To obtain more information about the target the acquirer can interview third party industry or trade experts, customers or suppliers who are able to give objective information about the quality of the target company's business (Perry et al. 2004, 13-14).

Failing to understand the target market's culture, regulatory structure or competitive environment poses a big risk in cross-border acquisitions. Lack of attention to these factors may lead to overly optimistic assumptions about revenue growth or cost-saving opportunities. Too often, acquiring companies assume that their extensive knowledge of their own market will directly translate to the target's market and consequently do not invest in thorough due diligence on the target's markets. Proper due diligence, however, can expose challenges and differences to ensure that they are carefully taken in to account in synergy estimates and integration plans. (Firstbrook 2007, 54)

When consolidating within a geographical area, acquirers need to implement strong integration changes and are likely to deal with individual fears, organizational politics, cultural resistance, departure of key personnel and loss of customers. The integration design itself also raises specific challenges that need to be taken into consideration. For example, the full absorption of an acquired company might be seen as a winner-loser game that could generate departures and resistance to change. In the symbiotic integration approach, where both companies create a new organization using each other's best practices, selecting managers from different companies for positions in the new structure can destroy a cooperative atmosphere. This is why the acquirer should not only identify the risks attached to the deal strategy and synergies, but also those that could arise from the integration plan itself. (Very & Gates 2007, 186-188.)

For the acquisition to succeed the acquirer needs not only to find the right target but must also have a culture in place that accepts the acquisition as quickly as possible. In addition, acquirers that meet or exceed the set expectations within the first two years after the change of control are more likely to increase shareholder value. Whereas companies that dispute over the integration of operations only frustrate customers and employees and slow down the process. When the integration takes longer than two

years the merged companies fail to maximize the potential benefits of building synergies and often destroy shareholder value. (Bert, MacDonald & Herd 2003, 42)

Acquisition success is not easily reached. The success depends on various factors and elements, all of which may not be controlled by the acquirer. The acquirer, however, has tools to minimize these risks and the possibility of the acquisition to fail. A successful acquisition requires thorough analysis and focus throughout the entire process. In the pre-acquisition phase it is essential to do the due diligence right and make the effort to find all the possible information that could lead to the failure of the acquisition. For cross-border acquisitions this means that all the cultural and environmental issues have to be taken into account in the due diligence. It is also essential to plan the integration well before the acquisition but also to revise the plan during the process. Implementing the integration plan and following-up on the implementation is also crucial to achieve a successful acquisition. As mentioned earlier in this chapter, integration is the time when it is possible to actually realize the benefits imagined before the acquisition. This study focuses on the identification and management of acquired customers in cross-border acquisitions. Therefore, the next section will present the other theoretical part of this study, the management of customers in cross-border acquisitions. To be able to draw a theoretical framework for this study, customer relationship management needs to be defined.

3 CUSTOMER PERSPECTIVE IN CROSS-BORDER ACQUISITIONS

After defining and exploring the different phases in cross-border acquisitions, this section moves to discuss customer relationship management. First, customer relationship management and second, how international customers are managed are defined. It is necessary to present these issues since the customer focused post-acquisition integration involves customer relationship management and managing international customers, which might not be evident to the acquirer. The latter part of this section discusses how customers, in theory, can be identified and managed during the acquisition process. The final chapter of this section combines the theories presented to form the theoretical framework for this study.

3.1 Customer relationship management (CRM)

Combining marketing and sales activities is the most sensitive area of the entire integration phase, which directly affects customers. During the first few months following the acquisition, it is often observed that the new organization loses market share. The reason is that the new organization has a strong inward focus at this time. In order to realize the value-creation potentials, companies have to consolidate their customer bases and sales organizations globally and develop a new sales platform. Adopting the "best" of available systems is not necessarily enough. New sales structures should be considered, for example reorganizing according to market and customer segments and developing new ways to serve customers. To avoid losing revenues, the new organization must act quickly to communicate openly with customers. (Koch 2002, 281) In addition, the more unstable the environment, the more likely it is that companies will seek control over the target's transactions and over the internal resources of the target such as retention of relationship managers and attainment of superior employee performance, both of which can lead to higher acquisition performance. The relationship managers of the target are the individuals that link partner companies and customers to the target company. This is why maintaining the agreements and relationship contracts will give the acquisition a better possibility to survive and prosper (Richey, Kiessling, Tokman & Dalela 2008, 401-402).

In order to understand the way and means that companies manage their customers, it is necessary to define customer relationship management. Customer relationship management (CRM) can be described as a process where the objective is to achieve a continuous dialogue with customers through tailored customer specific treatment. This tailored treatment is based on the expected responses from each customer to available

marketing actions in order to achieve contribution from each customer and reach maximum profitability. (Ramaseshan, Bejou, Jain, Mason & Pancras 2006, 196) In other words CRM is the combination of the methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. For example, companies use databases to collect information on customers such as customer profiles, purchased products and other areas of interest. (Stone & Woodcock 2001, 3) CRM is a process spanning all organizational levels, potentially affecting decisions about marketing communications, pricing, customization of products or services and customer support services. Global customer relationship management (GCRM) is described as the strategic application of the CRM practices and processes of companies operating in multiple countries or by companies serving customers whose operations span multiple countries. GCRM incorporates the relevant differences in business practices, competition, and regulatory environment and consumer characteristics to CRM strategies in order to maximize customer value across the company's global customer portfolio. (Ramaseshan et al. 2006, 196)

The core CRM processes are customer acquisition, customer retention and customer development processes. Together these make up the customer life cycle, which traces business-to-business relationships through four main stages: pre-relationship, exploratory, developing and stable stages. Any uncertainties that each party may have about the other begin to disappear as the relationship moves along this trajectory. It is unlikely for a relationship to progress beyond the exploratory stage if there is no commitment on either side. However, if commitment is demonstrated, the relationship is likely move on to the stable stage as trust grows between the parties. (Buttle 2004, 269-270)

CRM can be divided to three levels; strategic, operational and analytical. Strategic CRM is concentrated on the development of a customer centric business culture where winning and keeping customers by creating and delivering value better than competitors is the main objective. Operational CRM concentrates on the automation of the customer facing elements of the business. The automation can be facilitated by different CRM software available for companies. Analytical CRM is focused on exploiting customer data to enhance both customer and company value. It builds on the foundation of customer information collected and available. (Buttle 2004, 3-9) The CRM system needs to be more than a warehouse of information. It needs to provide analysis of the collected data and it also needs to include the customer's input. It should also include data of the customer's industry and strategy. This expanded view of the customer helps the company to serve the customer better and develop the relationships with each customer. (Hennessey & Jeannet 2003, 206) The reason behind CRM, and GCRM, is that they improve business performance by enhancing customer satisfaction and increasing the level of customer loyalty. Satisfaction increases because the business'

understanding of customers increases and can create improved customer value propositions. The probability of repeat purchase increases when customer satisfaction increases. This then influences actual purchasing behavior and has a significant impact on business performance. (Buttle 2004, 20)

The customer retention rate is an important performance measure for CRM implementations. Customer retention can be defined as *"the number of customers doing business with a firm at the end of a financial year expressed as percentage of those who were active customers at the beginning of the year"* (Buttle 2004, 298). It is important to remember that the essential purpose of focusing CRM efforts on customer retention is to ensure that the company maintains relationships with strategically important customers. It might not be beneficial for the company to maintain relationships with all its customers because serving some of them may be too expensive. (Buttle 2004, 301) Managing customer retention and tenure generates two key benefits; reduction of marketing costs and customer recruitment, leading to reduced costs to serve existing customers. Eventually, as in some business-to-business markets, the relationship may become fully automated. Secondly, as tenure grows, suppliers begin to understand the requirements of the customers and the customers begin to understand what the company can do for them. Over time, as relationships become deeper, trust and commitment tend to grow between the parties and so the revenues from customers become more secure. (Buttle 2004, 17-18) CRM involves tools for how customers can be effectively managed. As mentioned in this chapter the management of each customer needs to be tailored in order to get the most out a relationship. Applying CRM to a global customer portfolio means that a company has to have knowledge on the customers market and the preferences and management styles of that particular market. The following chapter will describe how international customers should be managed.

3.2   Managing international customers

This chapter explains how managing international customers differ from managing domestic customers. This is important as one of the focuses in this study is managing customers in cross-border acquisition. The fundamental reason behind companies wanting a relationship with customers is purely economic. Companies benefit financially when they manage their customer base in order to identify, satisfy and retain their most profitable ones, which is a key objective in customer relationship management strategies (Buttle 2004, 16).

Marketing is no longer just about developing, selling and delivering products. It has evolved over time to be more concerned with the development and maintenance of mutually beneficial long-term relationships with customers. This change has been and is

driven by several conditions. For example more intense and often global competition, increasing market fragmentation, demanding customers and their rapidly changing purchasing patterns. In addition, a higher level of product quality has forced companies to seek competitive advantage in other ways. Lasting relationships cannot be imitated by competitors and therefore creates a unique and sustained competitive advantage. (Buttle 1996, 1)

The most important relationships of a company are the relationships it has with its customers and suppliers. These relationships have taken a long time to develop, are complex by nature and therefore difficult to replace. (Ford, Gadde, Håkansson, Lundgren, Snehota, Turnbull & Wilson 1998, 67) Managing these relationships involves resource allocation between evolving customer portfolios. Business marketing establishes, develops and manages customer relationships as a part of an overall portfolio. (Ford et al. 1998, 162) In business markets, companies are dependent on the success of their relationships with customers. Many of the strategic choices that company makes will be in response to the actions of these other companies. In turn, the outcome of a company's strategy will always depend on the actions of others and how they react to what the company does (Ford et al. 1998, 64). The success of long-term marketing strategies can be best measured in customer retention and defection rates, share of customer, economies of scope and customer loyalty. These objectives signify that the life time value of the customer is taken into account. (Buttle 1996, 190)

The pressure on suppliers for changes grows as global companies strive to develop their operational relationships to support their own global production and sourcing strategies (Montgomery, Yip & Villalonga 1999, 7). The international management of customers can be divided to two different situations. The first one covers the existence of customers whose decision centre and operational field are essentially national. Each country gathers customers that are often very similar and of limited size. These customers often have also real decision autonomy and act at a national or local level. The second situation covers the existence of international customers. Each country has a particular customer base and present a particular set of establishments. This sometimes means conflicts of interest for the supplier. (Michel, Naudé, Salle & Valla 2003, 423) To manage these global business relationships efficiently, the differences in these relationships have to be understood (Zineldin 2007, 368).

Truly international customers are not a novelty for many companies. The specificities that an international point of view brings can be examined at two levels; the management of global customers, and the approach to a particular market segment. If a global customer has an issue that needs to be dealt with, its various national subsidiaries are often heterogeneous when viewed from the angle of a given segment. Hence, the subsidiaries of a largely international company may present very different issues for a supplier. If the supplier dedicates resources to the subsidiary in one country, it may

result in a loss of time and money, while dedicating efforts in another country to another subsidiary could prove to be highly rewarding. Suppliers may also base part of their development on the relationships that they have with particular large and often important customers. When these customers develop their own international operations, they usually want their familiar and trusted supplier to follow them abroad, in other words they export the most competitive part of their cluster. As part of the original network moves towards other geographical areas the customers who call in their first-tier suppliers, tend to also gather second-tier suppliers. This creates local poles of activity and development that facilitates export to other countries. (Michel et al. 2003, 424-431)

Companies that expect global scope from their suppliers have to first make sure that their own company capabilities are in such condition that they can withstand global competition. If potential for a close relationship, account penetration and joint investment does not exist, there is little incentive for a supplier to serve a customer globally. One organisational account management model that is frequently encountered in the initial stages of globalisation is the *"initiation"* model where the supplier's global capabilities are defined at the head office and the global framework for each customer is negotiated in the customers' home country. This makes it possible for agreements to be tailored to local conditions and managed according to the geographic market concerned. In this approach responsibility of the account rests with the suppliers' local subsidiary. (McDonald, Rogers & Woodburn 2000, 201)

CRM, implemented either from a sales or a relationship management point of view, will change dramatically when the geographic scope of the customer changes. Geographical dimensions drive complexity within companies and in buyer-seller relationships. If the seller and the buyer are both complex, international or global companies, key account management becomes a difficult task coordinating multiple companies with multiple product and service system needs in multiple countries. (Gosselin & Bauwen 2006, 379-380) A global approach to CRM systems helps to transfer knowledge across country boundaries. However, most global companies have such a diverse customer base and diverse markets that local companies might relate differently to a CRM program. The critical issue in structuring global CRM is to find the balance between perfection and delivery. The central measure of success is the response from customers and the development of value for customers. (Stone, Foss, Harvey, Scheld & Whitaker 2001, 289-290)

Managing international customers is not an easy task. There are a number of elements and factors to take into account, including differences in the legal environment and cultural differences. Applying global CRM facilitates this task as it is possible to collect the relevant data of each geographical area's customer portfolio. Every company has their own specific CRM systems and ways to manage their customers. As

mentioned earlier in this study, acquisitions create uncertainty among customers, who are accustomed to a certain way of interacting with their supplier. Acquisitions change the way business is normally done and interruptions in service and service levels can be expected during the merging of the acquirer and acquired companies. The following chapter will present a customer oriented approach to cross-border acquisitions.

3.3 Customer orientation in acquisitions

3.3.1 Customer oriented pre-acquisition phase

Chapter 2.3.1 presented the traditional due diligence. This chapter will go further from the traditional due diligence and present the ways an acquirer can use due diligence to indentify the customers and the business of the target company. In an acquisition aimed at expanding to adjacent markets, customers or product segments, the gain comes from growing revenues (Gadiesh, Ormiston & Rovit 2003, 37). Lebedow (1999, 12-14) points out important issues in the target selection process, when customers are of interest in the acquisition. Even though an acquirer may have the resources to expand in an existing market or to enter a new market, the company must conduct a thorough internal analysis of their own strengths and weaknesses. After conducting the internal analysis and a market assessment, the acquirer can identify those targets that control significant and defensible market shares and that would best fit with the acquirer both functionally and culturally. Only with a thorough understanding of the target and the internal strengths and weaknesses can the acquirer develop a series of growth scenarios. The scenarios should identify the target that best complements the acquirers business. Limiting due diligence to financial and managerial review is rarely enough. Successful acquisition strategy depends on the structure and depth of the due diligence process. (Lebedow 1999, 14)

A typical mistake in cross-border acquisitions is when the acquirer preassumes that the customers in the target's markets are fundamentally the same as those in the home market (Firstbrook 2007, 54). Market due diligence is basically the phase were the relevant data on the target company's customers is obtained. The general objective of the market due diligence is to reveal the corporate and market-related opportunities and risks that will determine the future development of the company and consequently the success of the acquisition. While financial due diligence is almost exclusively involved with internal company data, marketing due diligence includes an analysis of external environment, for example the market. In this way, the marketing due diligence exercise

interlinks the customer and market aspects with those relating solely to the company. (Pack 2002, 166)

Market due diligence has not been widely studied and research on it can be found mainly in publications of consultancy companies. Traditional due diligence does not take into account the key details of marketing which are infrastructure, strategy and tactics. This prevents the joining companies in an acquisition from becoming truly integrated and customer focused. Market due diligence helps to achieve the nearly unattainable strategic fit. (Clemente & Greenspan 1998, 25-26) Pack (2002, 166) states that there are three specific objectives for market due diligence, which are; ascertainment of the competitive position of the target, analysis of the future viability of the sector or market and appraisal of the synergy potential and verification of the strategic planning (Pack 2002, 166). The objective is to attain the information that will help the establishment of sales, marketing and product development strategies to be implemented after the acquisition is finalized. Acquiring all this information means thorough investigation of the number and size of customers, the distribution of revenues across customers, the customer retention and turnover figures, customer satisfaction and profitability and revenue per customer and brand loyalty. In business to business markets the due diligence should also assess the reputation of customers, seniority of buyers within the customers and the extent to which the target relies on sales to its owner or subsidiaries. (Clemente & Greenspan 1998, 25-26)

Market due diligence is mainly focused on answering two questions. First, how attractive the market is for potential growth, profit, customer needs, competitor positioning, industry trends, opportunities and threats, critical success factors among other things. Second, how well positioned the acquisition target is in the market, if it is competing in the most or least attractive segments. Conducting market due diligence in, niche markets for example, means conducting primary research of customers, competitors and third party industry experts (Lisle 2008, 134). Consequently, marketing due diligence makes a significant contribution to underpinning the validity of the selling price, since the value of a target is heavily influenced by the prospects of future earnings (Pack 2002, 166).

Furthermore, on the sales side, internal analysis of the market due diligence is focused on the customer structure, number of customers, dependency of customers and regional distribution of sales. Within this framework, the pre-contractual negotiation phase should be used in order to explore the objectives of the acquirer and target, and to align these as closely as possible. (Pack 2002, 153–168) Specific information on the target's customers is very difficult to obtain before the acquisition has been finalized. During the due diligence phase it is generally possible to get information on the contracts companies have with their customers that is the sustainability of the current

business. Table 2 shows factors about the target's business that the acquirer should be aware of in a customer oriented due diligence.

Table 2   Assessment of customer bases of buyer and candidate (Clemente & Greenspan 1998, 26)

Common Customers	**Target-only Customers**
(Served by both target and acquirer) Assess the likely customer loss from e.g. - Customer multiple supplier policy Assess likely sales gains from e.g. - Bundling of products	Assess likelihood of cross-selling
Buyer-only Customers	**New Prospects**
Assess likelihood of cross-selling	(Not served by Candidate or buyer) Assess major new customer prospects e.g. - Those previously approached - What the combination would offer to new customers

Customer awareness involves a disciplined, systematic process of gaining awareness of customer needs and interests, purchase decision behaviors, perceptions of suppliers and the current state of relationships (see Table 2). The single most basic element of market due diligence may be calls to customers. Doing this internally may not be the most effective way even though it might be cost efficient. A good research firm will get a deeper insight on how the customer chooses a supplier and how they rate and rank the various competing suppliers. (Lisle 2008, 134) Even though customers should be assessed all time, an acquisition is a perfect time to assess the customer portfolio. Profitable customers are the joint company's most important asset. Initiatives to cut costs are pointless if the most profitable customers are lost or the loyalty of these customers declines. Conversely, if there are unprofitable customers or customers who are expensive to serve, an acquisition is the time to mitigate or eliminate that aspect of the relationship. (Clemente & Greenspan 1997, 25)

The customer oriented pre-acquisition phase does not differ much from the traditional pre-acquisition phase. It emphasizes the important elements concerning customers, which are the customers' market, their position in that market, competition.

In an acquisition where the main motive is to get access to a certain market and access to the customers in that market, it is essential to consider these elements when scanning for potential targets. The customer oriented pre-acquisition phase does not mean that the customers in the specific market are necessarily examined but the relationship the possible target has with the customers in that market. The target company's market share in a given market implies to what could be possible to achieve in that market by acquiring that company. Customer orientation does not end in the pre-acquisition phase. Integration has to be customer oriented as well to maximize the benefits of a customer oriented acquisition. The following chapter will describe the customer focus in the post-acquisition phase.

3.3.2 Customer oriented post-acquisition phase

Regardless of the motive for acquisition, the important element in a cross-border acquisition is people. Knowledge on local markets, customer and supplier relationships, and technical capabilities are some of the essential levers for gaining value from acquisitions. The need to protect value in acquisitions has implications for the speed of integration. Once a deal has been agreed on, integration planning should start as early as possible. Without careful attention, essential sources of value, such as the existing customers are bound to be forgotten which has negative impacts for both integration process and daily business of the merging companies. (Firstbrook 2007, 55) During an acquisition and the joining of the companies, customers should be viewed in terms of their profitability and loyalty. The customers that score high on both counts should be targeted through a marketing campaign emphasizing customer service. (Clemente & Greenspan 1997, 26)

Homburg and Bucerius (2006, 350) argue that the speed of integration helps to reduce uncertainty among customers. The acquisition success can be significantly reduced through negative customer reactions. An acquisition creates a lot of uncertainty among customers of the merging companies. This uncertainty relates, for example, to prices, quality of products and services, contact persons and attention devoted to different customer or market segments. If post-acquisition integration decisions, which are relevant for customers, are made and implemented quickly, customers will know what to expect from the merged company in terms of product offer, pricing policy, sales strategy, contact persons etc. In addition there is ample evidence from business practice that customer uncertainty after an acquisition is increased by rumors in the market related to the changes planned by the fused company. High speed of post-acquisition integration will not leave a lot of time for rumors to spread in the market, which, as said, leads to reduced customer uncertainty. (Homburg & Bucerius 2006, 350)

By nature, there is always organizational upheaval in the aftermath of an acquisition. People, products, and processes must be combined – a project that can take up to 18 months or even years, which is a long time to go on without loyalty and trust of the customer base. Therefore it is necessary, even before the integration planning begins, to set in motion a customer retention program. The main goal of the program is to ensure that customers are kept informed of the transaction, that they understand how they are affected and that they will be better of doing business with the merged company than doing business with just one of the companies. (Clemente & Greenspan 1997, 26) It is important to try to retain relationships with the target company's customers subsequent to the acquisition. There are, however, other factors that tend to divert the acquirer's attention. First, if the target was acquired, for example, for its technology, then the acquirer's attention might concentrate on the retention and sustained productivity of the target company's engineers and scientists. Second, the target may have only a few customers relative to the many customers of the acquirer and so they might be regarded as insufficiently numerous to be paid attention. Third, the primary representatives of the target company's customers, the target company's sales people, may not join the acquiring company. In addition, the manner in which the target company's employees are integrated into the acquirer's operations may also have an impact in the target company's customers. The fourth reason for which the acquirer may neglect the target company's customers in the post-acquisition integration process is that the customers may be so different from its own that it does not understand their needs and behavior, this might be the case in, for example, if the acquisition is motivated by a diversification strategy. (Dalziel 2007, 161-162)

Putting customers at the heart of integration requires taking five main steps. These steps are; planning for growth before the deal is finalized creating a dedicated customer-focus team, understanding customers' expectations, concerns and aspirations, preparing a coordinated customer plan for day one and taking regular customer pulse checks. A dedicated customer focus team should also be established alongside to the main project management team, which serves at the core of any post-acquisition integration. One of the advantages of this is that embeds a "customer first" mentality to the newly merged entity. Sales and customer service teams have to be prepared to market the benefits of a merger to customers and to remove any uncertainties. Before a deal is finalised these teams should have received main messages for customers and should have plans on how to manage the growing customer accounts. (Franken et al. 2008, 6-7) A big part of the integration effort should focus on defining the new entity's value proposition to customers and determining how to bring it to the market. Teams from both companies should develop together a new marketing plan for the merged company. (Gadiesh et al. 2003, 37)

Customers generally want to be assured that the people they have been dealing with will continue to service their accounts. Customers react aversely to the prospect of having to work with strangers after the acquisition. Retention of the account manager can minimize the impact of the transaction on an individual customer. Another concern for customers is the time that it takes after the acquisition for business to get back to normal again. Customers realize that changes in a company's ownership can create unforeseen complications which can disrupt product or service delivery. Communication to the customers should emphasize stability. Most of the customers are interested in the plans to quickly meld operations in order to minimize service disruptions. The merging companies should develop a reasonably exact integration plan that can be communicated as opposed to describing vaguely how the operations are planned to combine. In the end, the customer would rather hear about continuity than change. (Clemente & Greenspan 1997, 26) Even though the communication is hardly ever better than the actual integration process it can help handle insecurity and fill the voids. Therefore, the communication function should be a part of the integration process (Balle 2008, 59).

Communication is crucial in acquisitions to prevent defection of the target company's customers. Delayed communication about the acquisition can jeopardize customer relationships. What usually occurs in acquisitions is that customers are not informed of the deal promptly, or the information that they are give does not reduce the fears customers may have over potential service disruptions that may affect operations during the integration process. The results of failing to communicate about the acquisition can be for example the drop of sales and irretrievably lost customers. Competitors know all too well that the best time to aggressively court customers is when two companies are merging. There are a lot of distractions during the integration process and the most important value driver, the customer, is often overlooked. Competitors may begin contacting the customers immediately after the acquisition deal to alleviate uncertainties that arise when the companies that provide the customer important services are involved in a major corporate combination. Service disruptions during an acquisition can be unavoidable but a sound communications strategy can lessen potential customer damage. (Clemente & Greenspan 1997, 24-25) Because, if customers do not fully understand the strategic motive for the acquisition, they might leave to find a new business partner (Bert et al. 2003, 47).

The preoccupation with different internal merger activities is bound to pull management's and employee's attention away from customers. At the same time competitors will perceive the acquisition as an opportunity to steal customers. Successful acquirers make plans for customer retention and ensure that the appropriate integration team is implementing these plans and enforce the use of systems to determine customer service and satisfaction levels and also plans for customer

defection. The plan may be as simple as a letter from the executive to key customers and a face-to-face meeting with them. If customers are lost, the acquirer should be prepared with a competitive reaction plan to get the lost customers back. (Bert et al. 2003, 48) When a company's acquisitions focus on delivering revenue synergies, customer retention is essential. The company should monitor closely how customers accept the integration. Sales force reports on the frequency of customer calls for assistance and changes in the length of time to respond to customer needs should be tracked. Tracking customer response time can be one of the most effective measures for evaluating how integration is able to keep the business running at the same time. What a company can do to retain customers is, first, to incorporate the new customers and any new requirements they have into the CRM plan. Second, the acquirer should perform monthly monitoring how the acquired customers are responding to the new company combination, using information gathered from sales people and from executive visits. Third, the acquirer should develop an account strategy separately for the new customers. Finally, gather reports at the 6 and 12 month review stages, how the acquired customers have performed and what new customers have been acquired. (Very et al. 2007, 192-193)

Without a customer retention plan, the merging company is at the mercy of its competitors, who will attempt to exploit the collective apprehension in the customer base. While there is a defensive element to the retention strategy, proactive marketing benefits also can be generated from a well-executed communication plan. Once the structure has been installed and the initial appointments made the difficult task is obtaining savings and other synergies and attaining performance objectives. This might take up to two or three years to achieve. Under-communicating is probably the single most important cause of poor motivation, general discontent and rumour generation in all mergers. Successful communication plan should include a clear statement of reasons for the acquisition, including benefits that are striven for. It should include the strategy that has to be followed in pursuit of these benefits and inform about immediate organisational moves. It should also include brief details of the financial position and progress of both parties. (Clemente & Greenspan 1997, 28) Communication is, however, partly an issue of style and systems and also an issue of the communicator's ability of getting the message across. In this area nationalities play a big part since different cultures have different attitudes towards communication with language barriers complicating the issue (Child et al. 2001, 126).

Having a customer oriented take on the post-acquisition phase involves a clearly and precisely formed integration plan, which takes customers into account. As mentioned in the previous chapters, integration is the phase where the acquisition objectives realise and the implementation of the integration plan is essential. If it is not followed through as planned, the result may be failure in the acquisition as the set objectives are not

achieved. The main points mentioned in this chapter were that the most important elements concerning customers are the speed of the integration, retaining the right personnel, formulating and implanting a customer retention plan and communication of the acquisition. All these elements have to be incorporated and planned along with the general integration plan well before the deal is realised and reviewed throughout the acquisition process. In this way a customer focused post-acquisition phase does not differ from the traditional one. Communicating about the acquisition poses problems since there are different laws concerning public and private companies. But managing the communication as efficiently and as quickly as possible is necessary regardless of the corporate form. The following chapter presents the theoretical framework of this study.

3.4   Synthesis

The objective of this study is to find out *how the target company's customers are identified and managed in cross-border acquisitions*. The theory in previous chapters have presented the theoretical background to acquisitions, providing the context of this study, and then on customer relationship management and the customer perspective on acquisitions. The purpose of this chapter is to summarize the presented theories in the light of the research objective of this study. To form the theoretical framework, the stage model proposed by Whittington and Bates (2007, 28) is applied (see Figure 4). The framework is presented in the same process view as the acquisition process has been presented earlier in this study and the process is viewed from a customer perspective.

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┌─────────────────────────┐        ┌──────────────────────┐
│   1. Selection of target│        │ Pre-acquisition      │
│                         │ ┐      │ phase                │
└───────────┬─────────────┘ │      │ Strategy of the      │
            │               ├      │ acquirer &           │
            ▼               │      │ Marketing Due        │
┌─────────────────────────┐ │      │ Diligence            │
│   2. Valuation          │ ┘      │                      │
└───────────┬─────────────┘        └──────────────────────┘
            │
            ▼
┌─────────────────────────┐        ┌──────────────────────┐
│   3. The Deal           │ ┐      │ Acquisition phase    │
└───────────┬─────────────┘        └──────────────────────┘
            │
            ▼
┌──────────────┐ ┌─────────────────────────┐
│Post-acquisition│ │4. Assessing the outcome │
│phase:          │ │   of the deal           │
│Communication & │ │                         │
│Customer oriented│└───────────┬─────────────┘
│post-acquisition│             │
│integration     │             ▼
│                │ ┌─────────────────────────┐
│                │ │5. Managing the outcome  │
│                │ │   of the deal           │
└──────────────┘ └─────────────────────────┘
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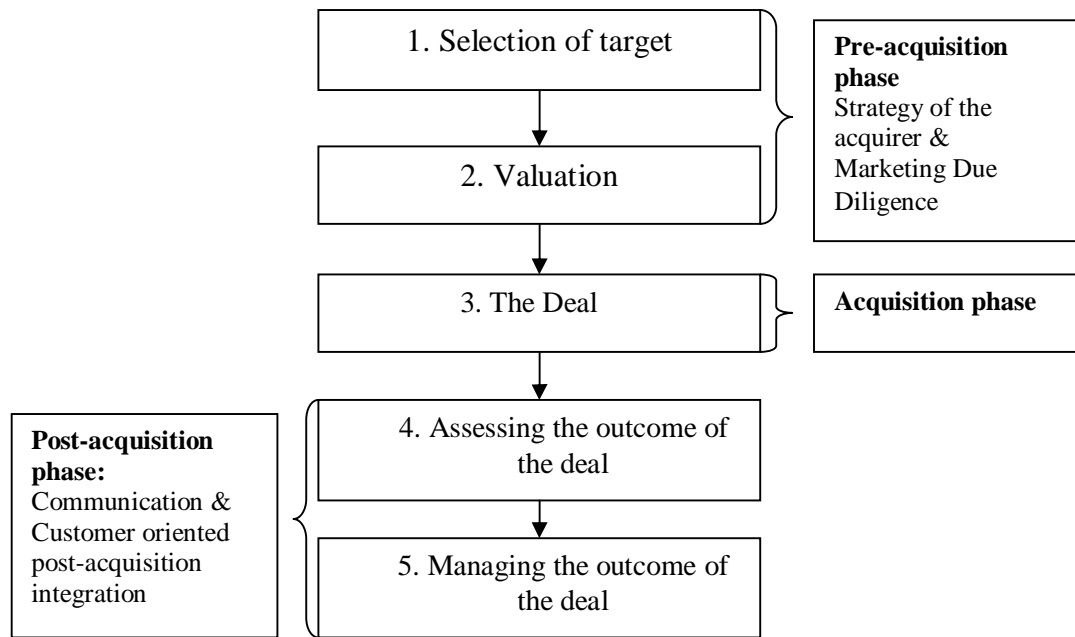
Figure 4   Customer focused stages in the acquisition process (modified from
                Whittington & Bates 2007, 28)

The important elements that differ from the traditional process (see Figure 4) are in the pre- and post-acquisition phases. It begins from the acquirer's strategy, i.e. what is the purpose of the acquisition. In the previous chapters it has become clear that motives for acquiring involving the customer perspective are growth and strengthening market position in a given country. These motives also include the strategic thinking of does the acquirer wish to diversify or not. The company's position in the market can be strengthened through both related and unrelated acquisitions. The acquirer's strategy determines which type of acquisition fits their overall strategy the best and which type of acquisition is needed at that time. The scanning of potential targets follows this motivation. Scanning of targets will concentrate on companies that have a strong position in their market. The due diligence process follows target selection. As mentioned traditional due diligence is as essential to the process as is the market due diligence. Traditional due diligence brings out essential information about the target's viability and other financial information and the contracts it has with its customers. When customers are the focus of a cross-border acquisition, it is necessary to perform market due diligence in addition to traditional due diligence. The elements concerning the environment of the target; culture, competition, regulatory issues, etc, are all very important when acquiring to grow by entering a new market or when acquiring to strengthen their position or presence in a certain market. However, it is necessary to

keep in mind that not all information is accessible before finalizing the deal, since companies do not willingly give all the information concerning their customers or customer relationship management systems and procedures. This is a precautionary action, since it is not wise to give out all information in the case that the deal might never realise.

The post-acquisition phase is a critical phase for the success of the acquisition. As mentioned earlier in this study the integration plan must be made well in advance, even before the acquisition decision has been made. This means that the acquirer has to have a specified view already in mind what they want from the acquisition. This in turn reflects the strategic reasoning of the acquisition. Customer focus adds to the traditional process (see Figure 2) communication and customer orientation in integration. From the integration approaches proposed by Haspeslagh and Jemison (1991, 145) one might conclude that the management of customers i.e. whether they are the responsibility of the acquirer or the acquired company, is dependent on the integration approach. Absorption integration approach integrates the acquired company fully to the acquirer meaning that they take all the elements that come with the target in them, including customers. In the preservation integration approach, the responsibility of customers remains with the acquired company, although there might be some best practices that are transferred to the acquired company. And finally in the symbiotic integration approach, the coexistence of the companies suggests that there might be some form of cooperation between the companies in managing customers. The way the acquired company is integrated to the acquirer specifies the integration plan and what is required to do. An important element concerning customers is the CRM procedures. The acquirer needs to assess what is necessary to keep from the acquired company's CRM and what can be replaced by the acquirer's systems. Also it is necessary to assess the level of commitment the customers have based on a certain contact person in the acquired company and can that relationship be transferred if necessary. In addition, a retention plan for acquired customers has to be done in order to avoid the loss of customers. Another important task in the post-acquisition phase according to the theory is communication. All relevant parties concerning the acquisition should be kept informed about the process at all times. This is somewhat problematic due to regulatory issues and the secrecy concerning acquisitions. The key point in communication, however, is that when possible, customers should be informed about the acquisition and assured that it is good for them and that the changes will be as minimal as possible. All in all, the customer focused integration aims at a smooth change in operation with minimal inconvenience for the customers. Figure 5 illustrates the process of identifying the target company's customers and how the customers are managed throughout the entire acquisition process.

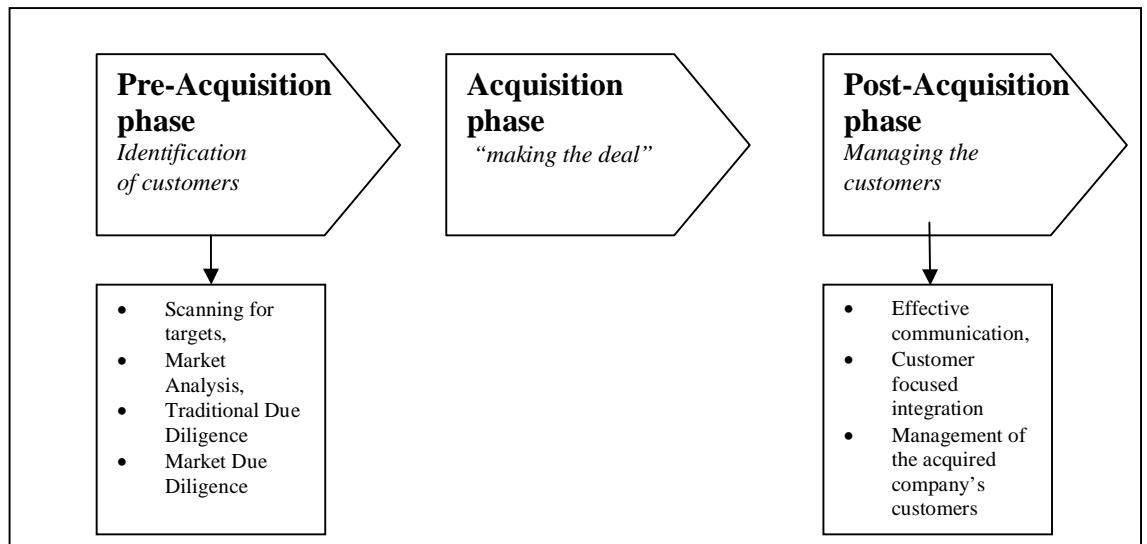| Pre-Acquisition phase *Identification of customers*	Acquisition phase *"making the deal"*	Post-Acquisition phase *Managing the customers*
• Scanning for targets, • Market Analysis, • Traditional Due Diligence • Market Due Diligence		• Effective communication, • Customer focused integration • Management of the acquired company's customers

Figure 5   Identifying and managing customers in cross-border acquisitions

What Figure 5 illustrates is that according to theory identifying and managing the customers can be divided clearly in to the pre- and post-acquisition phases. In the pre-acquisition phase the prerequisite is that the acquirer has customer oriented motives for acquiring, which are growth and strengthening market position. This involves scanning the market for companies with for example large market shares, possess products or services that will strengthen the acquirer's position in that market or competing companies. By conducting thorough due diligence the acquirer can go further in the analysis and gain information on contracts the target company has with its customers and learn which customers accumulate the most revenues for the target. Market due diligence helps the acquirer to further understand the target company's business environment and hence the business environment of the target company's customers. Information gathered in both the traditional due diligence and market due diligence are an important part to take into account when forming the integration plan. After the deal is signed and the acquisition finalized the delicate phase of integration begins. According to theory the first important task is to communicate about the acquisition to the customers. The customers should be informed as soon as possible about all possible changes and how they will affect them. The integration plan should also include a customer retention plan in order to minimize customer losses. The selected integration approach also dictates how the customers are to be managed after the acquisition. Responsibilities need to be shared and the acquirer should consider whether to apply the acquired company's CRM systems or integrate them fully into their own and apply it to the customers. The integration has to be revised during the process at regular intervals. Now that the theoretical framework has been set for this study, the following sections will present how this fits to practise as the research methodology and findings are presented

4 RESEARCH METHODOLOGY

This chapter presents the methodology, which is used in this study. The methodology of this study consists of qualitative case-study. The qualitative research data was collected by using semi-structured interviews. The decision to choose the aforementioned methodology was affected by several different factors, which are discussed in more detail in this section.

4.1 Qualitative case study

As Marschan-Piekkari and Welch (2004, 5) say, qualitative research has always had a position in the field of international business. Qualitative data are attractive because they are a source of well-grounded, rich descriptions and explanations of processes occurring in local contexts. With qualitative data one can preserve chronological flow, assess local causality and derive fruitful explanations. In addition qualitative data are more likely to lead to serendipitous findings and to new theoretical integrations. They help the researchers go beyond initial preconceptions and theoretical frameworks. (Marschan-Piekkari & Welch 2004, 5) Qualitative research often simplifies issues and shows unique and exceptional cases (Alasuutari 1993, 25). Qualitative data are in the form of words rather than numbers, and these words, especially when they are organized into incidents or stories, have a concrete and meaningful flavor that often proves to be more convincing to a reader than pages of numbers (Miles & Huberman 1984, 15). The main objective of this study was to find out "how" the customers are identified and managed and therefore a quantitative research would have not provided results that would have efficiently answered this question. Considering the nature of the research objective of this study, collecting qualitative data was best suited to gain answers to the objective as it was necessary to obtain as much information as possible and leave room for unexpected information to emerge.

This research uses the case study approach. When "how" or "why" questions are posed, case studies are generally the preferred strategy and the researcher has little control over events and the research subject is contemporary and has some real-life context (Yin, 2004, 1). A case study is not a method in itself. It is the choice of an object to study and can be either quantitative or qualitative. It is usual in business studies to study cases to provide insight into a problem, a management situation or new theory. Case studies are a useful method when the problem at hand is relatively unknown and the researcher is involved in theory-building types of research. However, case studies are a flexible research approach that is applicable to a number of different types of research questions. (Ghauri 2004, 109-110) Case studies can be divided into

two types; intensive case studies and extensive case studies. The purpose of an intensive case study is to find out how a specific and unique case works. A distinctive characteristic of any qualitative inquiry is its emphasis on interpretations. However, there is interpretation in all research, so the main purpose of intensive case studies is to offer the researchers interpretations on the case. Producing knowledge that could be generalized to other contexts is not the main purpose of an intensive case study research. The objective is to understand how the chosen case works. The chosen case is unique, critical or extreme in one way or another. The uniqueness of the chosen case justifies the appropriateness of the case study approach. (Eriksson & Kovalainen 2008, 118-121) Designing the case study should be optimised to understand a particular situation or problem rather than generalisation (Ghauri 2004, 109).

The case in question is identifying and managing the target company's customers in cross-border acquisitions, cross-border acquisitions being the real-life context in this case (Yin 2004, 1) and also fits the intensive case study definition as the research problem is quite specific by nature in a vast field of M&A research (Eriksson & Kovalainen 2008, 118). As the research questions are mainly "how" questions the case study approach was found appropriate for this study. However, this is not a typical case study. Traditionally in multiple case studies using a case-oriented approach the case is first considered as an entity and then compared using a comparative analysis conducted to a number of other cases. The variable-oriented approach is more conceptual and theory-centered, which casts a wide net over many cases. The concentration on broad patterns found across a wide variety of cases means that the details of any specific remain behind and little case-to-case comparison is done. (Miles & Huberman 1994, 172) However, in this study the main interest was neither a specific company nor a specific acquisition. In this situation there was a research problem, which needed general understanding and by studying a particular case the researcher may get insight to the question. The researcher could have tried to find insight to the case by understanding a single company. Stake (1995, 3) describes these kinds of studies as instrumental case studies. In the same situation, however, the researcher may choose several companies to study rather than just one. Stake (1995, 4) refers to this type of studies as collective case studies. Therefore, the companies selected for this study are instrumental cases as they are used as instruments to understand and illustrate the phenomenon of identifying and managing the target company's customers in cross-border acquisitions.

The data for this research was collected by conducting interviews with executives from four different companies. Welch, Marschan-Piekkari, Penttinen and Tahvanainen (2002, 614) state that when interviewing elites the interview situation should be fairly formal in order for it to give the best results possible. An elite interviewee is an individual who occupies a senior or middle management position and has functional

responsibility in an area whit high status in accordance with the corporate values. The elite interviewee, by this definition has also considerable industry experience and usually also long tenure with the company. Elite individuals are used to exercising power and being in charge of situations. They are also used to be asked about their opinion on issues. (Welch et al. 2002, 613) Interviews with elites are usually quite businesslike but they also need sociability from the interviewer (Odendahl and Shaw 2002, 310).

As the empirical research was conducted by interviewing executives an interview guide was prepared. McCracken (1988, 25) states, the use of a questionnaire is important in order to cover all the necessary issues but it should keep the opportunity for exploratory and unstructured responses, and therefore the researcher did not prepare a rigid questionnaire. As well as preparing an interview guide well and knowing about the subject it is important to be sure that you are interviewing the right person and asking the right questions, questions the interviewee have knowledge about (Wilkinson & Young 2004, 214). The main task of the interviewer is to keep the control in the interview situation. This requires flexibility from the interviewer. The interviewer should be ready to adapt to the scenario and the personality at hand rather than stick to a prepared interview structure (Odendahl & Shaw 2002, 311). An interview is considered to be one of the most effective methods in qualitative research (McCracken 1988, 9). In the interviews conducted for this research, open-ended and semi-structured questions were used. Semi-structured questions are considered to be most effective in elite interviews (Odendahl & Shaw 2002, 310). The semi-structured interview questions are mainly used to study "what" and "why" questions. In these interviews the researcher makes an outline of topics, issues or themes, which in this research were the research sub-objectives. The researcher has to form the topics etc. in a way that it gives the possibility to vary the wording and order of questions in each interview. The advantage of this kind of interview is that the materials are somewhat systematic and the interview fairly conversational and informal. (Eriksson & Kovalainen 2008, 82) As mentioned in the beginning of this chapter the companies to illustrate the case were chosen based on their experience in cross-border acquisitions. This involved the assumption that these companies have established procedures and tools to indentify and manage customers in cross-border acquisitions. A more detailed description of the companies and the selection process follows.

4.2   Selecting the interviewees

This is a qualitative research, which was conducted using semi-structured interviews. There were several issues that guided the selection of the interviewees in this research. First, the research objective concentrates on cross-border acquisitions. The selection of the companies was primarily based on whether or not they had performed cross-border acquisitions. Second, this study focuses on recent acquisitions, so the companies were chosen by their acquisition activity during recent years. Third, in order to gain the best and most accurate results, the companies were chosen based on their experience in acquisitions, more precisely experience on cross-border acquisitions. Fourth, in this research the choice of companies was narrowed down to companies operating in business-to-business (B2B) environment. These criteria and the companies chosen are discussed in this chapter.

The main source for information on acquisitions was the webpage of Talouselämä magazine, which publishes all recent mergers and acquisitions almost on a weekly basis Talouselämä proved, therefore, to be an accurate source of information on acquisitions as it was possible to screen foreign and cross-border acquisitions from this publication and also to learn the share of ownership before and after the merger or acquisition, the acquirer, the acquired company and the industry of both companies. Another source was an extensive database of acquisitions by Finnish companies from 2005 to 2007. The database was collected by the department of International Business in Turku School of Economics. Both sources made it relevantly easy to narrow down companies which could be contacted concerning the interview.

The second criteria for choosing the companies was, as mentioned earlier, a recent acquisition, i.e. maximum of 3 years ago, and that the acquisition was a cross-border acquisition. It was difficult to determine the saturation point, so the researcher decided to obtain first four interviews and then decide if more interviews were needed. The aim was to interview executives who are responsible for acquisitions in these companies. When information on how to contact the right people was not available, an email was sent to a general contact address with the request to forward the email to the person in charge of acquisitions. An email request proved to be an effective way to contact the companies, as positive responses from all the first four companies was received very quickly. The names of the interviewees and the companies was chosen to be kept anonymous as the focus in this study was not to understand how a specific company identifies and manages the customers or how this is done in a specific acquisition. Nonetheless, all interviewees agreed to their name being published if necessary. However, the researcher did not find this necessary and therefore the interviewees are kept anonymous and presented with their titles.

In Figure 5 the companies interviewed to illustrate this case are positioned in a grid that depicts the industry they operate in. Interviewee A represents a company that is a global company which provides process solutions, technologies and services for the mining and metallurgical industries. It does business in the business to business context providing its customer with products such as plants and equipments. The acquisitions at the moment concentrate on strengthening the company's after sales operations as the customer relationships tend to last for long periods of time. The company's corporate strategy is sustainable profitable growth and acquisitions are an essential element in that strategy. Interviewee B represents a company that is a global consumer products company and provides its customers products from a vast portfolio of well known brands. Acquisitions are a part of the corporate growth strategy and recent acquisitions have been about consolidation and strengthening the company's position in the markets in which the company operates. Interviewee C represents a company which operates in the service business offering a wide range of services to other businesses different markets in its home country. The company is a part of an international corporation which operates in 50 countries and on the corporate level there are around 70 acquisitions per year. The acquisitions are divided to three groups, which are strategic acquisitions, tactical acquisitions and opportunistic acquisitions. The reason why Interviewee C is positioned in the middle of the B2B/B2C axis is that it sells services to other companies but the end user in general is nevertheless the consumers. Interviewee D is a company offering logistics and transport solutions in business to business markets. The company was sold to an international competitor and then resold again to another international player in the same market. The representative of this company was involved in the selling of the company both times. This leaves the lower left quadrant empty, i.e. the companies who offer services in the B2C markets. These companies were not the focus in this study, but may have indicated differing results as the B2C industries are heavily dependent on customers. All of the interviewees have experience from many acquisitions and were therefore able to give answers that provided a general understanding of the phenomenon in question.

One of the companies has plans to acquire from another country but no deals have been realized so far. Three of the companies represent the acquirer perspective and one of the companies was able to give the perspective of an acquired company. The companies represent well the markets in general since they all operate in different industries and serve either the business-to-customer market or the business-to-business market (see figure 6).
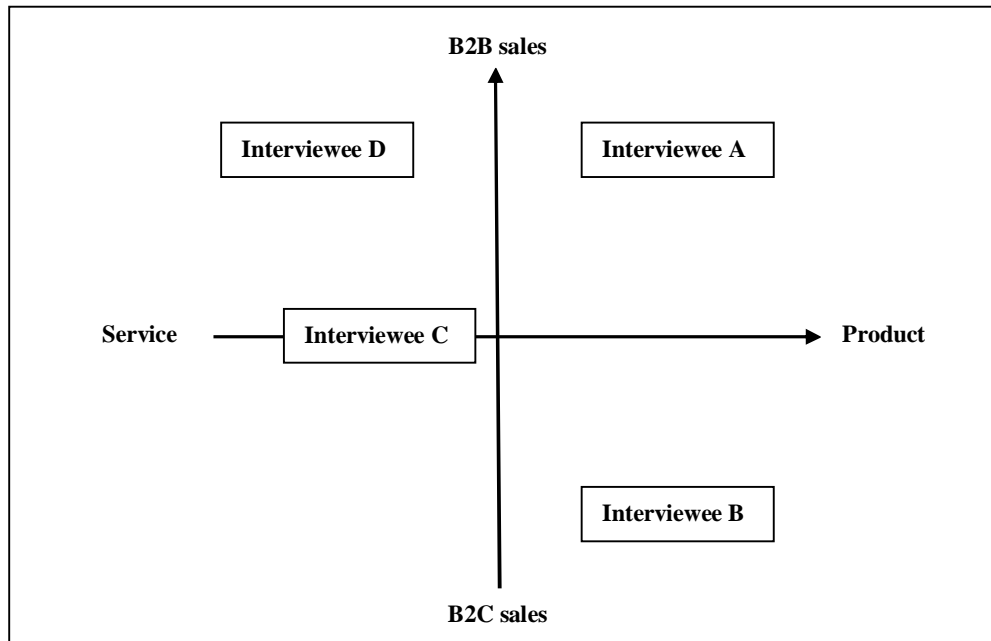
Figure 6   Industry of the interviewed companies

The interviewees were executives responsible for acquisitions in the companies. By sending the emails directly to the secretaries of these executives or the general contact email, it was possible to get contact with these executives. All interviewees will be referred with their position titles from now on. Interviewee A is the Senior Vice President of Business Development (SVP Business Development) in their company. Interviewee B is the Chief Strategy Officer (CSO) in their company. Interviewee C is the M&A Director in their company. The three first interviewees represent the acquirers. Interviewee D is at the moment the Chief Executive Officer (CEO) in their consulting company and represents the acquired company. The following chapter will present the interviews and how they were conducted.

4.3   Qualitative interviews

The best approach for this case was to collect data from interviews as the information on how companies identify and manage customers can rarely be found in the company publications. The interview questions were prepared in advance, and the same set of questions was used with all interviewees, to get the best possible research data. The interview guide (see appendix 2) was formed based on the main objective of this study, and the questions were therefore grouped to answer the sub-objectives. Getting the answers to the sub-objectives facilitates the answering of the main research objective. One of the interviewees was interviewed by telephone. All of the interviewees were first approached by email and the interviews were arranged also by email. The interviewees

were given possible dates for the interviews to choose from, leaving the interviewees to select the time and place that best suited them and their schedules. The interviewees were made aware of the subject of the study and that the questions relate to cross-border acquisitions. Getting access to the interviewees did not pose any problems and all of the interviewees were pleased to take part in this study. An interview guide in Finnish, rather than a questionnaire (see appendix 2), was prepared beforehand and the same guide was used with all of the interviewees. Some altering was done during the interviews due to overlapping answers and additional questions that rose during the interview. The questions in the guide were grouped to answer each sub-objective but still maintained a continuous flow during the interview.

The interviews done for this study went smoothly and there were no problems of control over the situation or the progression of the interview. The SVP of Business development and the M&A Director were interviewed at the company's conference room which ensured privacy and minimal interruptions and distractions. The CEO was interviewed at the home office of the interviewee. The CSO was interviewed over the telephone. The reason behind the telephone interview was mainly schedule problems. The researcher had the possibility to conduct the telephone interview at an office at the Turku School of Economics, which was empty at that time so distractions and interruptions were at a minimum in this case too. In telephone interviews it is more difficult to connect with the interviewee since there is no in-person contact. The interviewer has to control the situation in a different way and in this study the interview went smoothly and no distractions on the interviewee's side was noticed. All of the interviews were recorded with the permission of the interviewee. All interviews took more or less one hour. After having conducted the interviews, the collected data was analysed.

4.4   Qualitative data analysis

Qualitative data analysis consists three concurrent flows of activity: data reduction, data display and conclusion drawing and verification. Data reduction is the process of selecting, simplifying, abstracting, and transforming the collected data. Data reduction is a continuous process, which occurs already before the data is even collected. This anticipatory data reduction occurs with every decision the researcher makes, for example which conceptual framework, which cases, which research questions and which data collection approaches the researcher uses. Data display refers to an organized, compressed assembly of information, which permits conclusion drawing. The last step is conclusion drawing and verification. (Miles & Huberman 1994, 10-11)

The way the collected data is considered and interpreted depends somewhat on the choices the researcher makes in the beginning of the research process. Analyzing, interpreting and concluding are the core tasks in the research. (Hirsjärvi, Remes & Sajavaara, 1997, 209) However, interpreting and analyzing qualitative data in case study research is perhaps the most difficult task of the research. To be able to present an authentic understanding of peoples experiences, the researcher has to interpret the data not only from the point of view of the people involved but also interpret the data against the background of the context in which they are produced. (Ghauri 2004, 117) Qualitative data deals with the meaning as opposed to quantitative data that deals with numbers. Meanings are mediated in most cases through language and action (Dey 1993, 10-11). Interpretation and explanation is the responsibility of the researcher and the data merely provides the base for the analysis (Dey 1993, 39). Yin (2009, 130-136) proposes that the best preparation for conducting data analysis in case studies is to have an analytic strategy. Yin proposes four different strategies of which the first one applies to this research. The strategy of relying on theoretical propositions means that the researcher follows the objectives and design of the case study which was based on theoretical propositions, which in turn reflected a set of research objectives, reviews of the literature, and new propositions and hypotheses. (Yin 2009, 130-136)

The first step was to transcribe the recorded data. The researcher can transcribe the entire recording or he can select the information he wants to transcribe by using themes (Hirsjärvi et al. 1997, 210). In this study the whole recorded interviews were transcribed as they were recorded. This was done in order to get everything on paper which facilitated the analysis. In addition, by transcribing the entire interview, the risk of leaving out important parts of the interview was minimized.

As the interview questions were grouped under each research sub-objective (see appendix 1) it was easy for the researcher to arrange the transcribed data accordingly under each sub-objective. This way the researcher was able to see does the collected data answer the research problem. The data was then carefully read through several times and rearranged if necessary to better answer the sub-objectives, since when interviewees answer, issues concerning all or some other sub-objective or interview question arises. It can be said that the data was reduced by selecting the relevant data under each sub-objective and a compressed assembly of the information was produced. Eskola and Suoranta (1998, 175) state that the research data can be arranged according to themes that illustrate the research problem. In this study the sub-objectives were used as the illustrating themes. Arranging the data by themes is suitable for studies where the problem is very practical (Eskola & Suoranta 1998, 179). As the research problem in this study is a very practical one, trying to understand how something is done, this method of analyzing was found suitable. The data collected from the four companies

were not analyzed or presented separately but analyzed as one. The data collected was not separated. The following chapter discusses the trustworthiness of the study.

4.5   Trustworthiness

The traditional concepts of reliability and validity have had their place in playing key roles in evaluation of scientific rigour. Reliability and validity are essential to the quantitative researcher. However, in qualitative research reliability and validity have been considered to be inappropriate as some qualitative research have proven to be inefficient and the uncertainty of meeting the validity standards has limited the clear evaluation of merits and achievements of well executed qualitative research. (Sinkovics, Penz & Ghauri 2008, 695-699) Therefore the concept of trustworthiness is a more appropriate tool of evaluating qualitative research. The foundation of a qualitative study is the researcher's subjectivity. In qualitative research the standard of trustworthiness is the researcher themselves and therefore the evaluation of trustworthiness covers the entire research process. (Eskola & Suoranta 1998, 211) The research problem in this study is not quantifiable as it tries to explain the phenomenon and therefore the trustworthiness is a more appropriate measure of evaluation. The basic principal of trustworthiness is the way researchers can persuade their audiences and themselves that the research findings are worth paying attention to (Lincoln & Guba 1985, 290). Lincoln and Guba (1985, 301–319) offer four means to facilitate the operationalization of trustworthiness which are credibility, transferability, dependability and conformability. Tynjälä (1991, 387–398) presents these means in a clear and simplified way. This chapter will deal with each of the terms in turn. *Credibility* refers to the ability of the researcher to prove that the results are equivalent to reality (Tynjälä 1991, 390). The data collected represents real-life cross-border acquisitions and therefore it increases the credibility of this study. The interviews for this research were done in Finnish. This fact makes the results more credible in oppose to the interview been held in English with a Finnish interviewee, as Finnish is the mother language of both the interviewer and interviewee. The credibility of this research was enhanced also by the fact that the interviews were recorded. This gives the possibility to return to the situation and verify what was actually said. All interviewees were in the position to give credible answers to the research questions and give credible opinions to the situation examined in this study. They all have long careers behind them in the mergers and acquisitions field. What also enhanced credibility was that the interviews were held in quiet and private locations and the interviewees had reserved time to participate in the interviews. All of the interviewees were very open and were happy to answer all questions and even explain more when asked. A negative effect on the credibility is the

fact that the results had to be translated into English and there might be some discrepancies in terminology. However, it can be stated that the results are presented in the same way as the interviewee gave them. *Transferability* refers to how similar the environments that is researched and the environment to which it is applied to are. This conclusion cannot be made solely by the researcher but also the people who use the results. The researcher has to describe the data and the research in such a way that the results can be transferred to another context. (Tynjälä 1991, 390) Even though generalization of the results to other context is not the main purpose of a case study (e.g. Eriksson & Kovalainen 2008, 121), the process of acquiring is somewhat the same in all companies. Also the motive and rationale behind acquisitions are similar. The companies were chosen because they are active in the merger and acquisition field. The results are transferable to other similar companies in the same industries since the research problem deals with a single factor in the acquisition decision making process of the companies. However, the transferability may be reduced due to the fact that every company may have different motives for acquiring another company and for the factors affecting the decision. This means that if applied to other companies in the same context, the study is transferable to these situations. *Dependability* includes different ways to evaluate the factors affecting the research situation (Tynjälä 1991, 391). The interviews were held in conference rooms, home offices and on the telephone and the interviewees had reserved time to participate in the interview. Only the interviewer and interviewee were present. The visible factors affecting the situation were at the minimum. Only the telephone interview had possible effects on the dependability since the researcher was not able to see the factors affecting the interview situation. However, considering the data collected in the telephone interview, the factors affecting the situation were minimal since the results were as good as received in the in-person interviews. *Confirmability* refers to the objectivity and distance of the researcher to the situation and the people involved. Quantitative research is often challenging because of the high dependability on human interaction. (Tynjälä 1991, 392) In this research it was possible to stay objective since the researcher does not have any personal ties to any of the companies or the interviewees. The results are analyzed and described in a way that anyone could come up with similar ideas and results given the same research data.

The trustworthiness of this study increases from the fact that good research ethics were applied to this study. The interviewees were informed about the research process before the interviews, when they were approaches about participating in this study. The interviews were recorded with the permission of the interviewees and the permission was asked before the interview took place. While the results are based on only four different companies, the fact that they operate in different industries mean that the results can be transferred to any industry and any company, which in turn raises the trustworthiness of this study.

5   RESEARCH FINDINGS

This section presents the empirical data collected in the interviews. The companies chosen to illustrate the case have all been active in the acquisition field. The company of Interviewee A finalized a cross-border acquisition in 2009 in North-America. The acquisition aimed to strengthen the company's after sales operations and hence, increase and stabilize the company's annual revenues. The company of Interviewee B finalized a cross-border acquisition in 2007 in Europe. The acquisition was to strengthen their presence within a product segment in that market. The company of Interviewee C is very active in domestic acquisitions and has plans to acquire cross-border, but these plans have yet to be realized. The acquisitions aim mainly to strengthen the company's position in their industry. The corporation makes around 70 acquisitions per year internationally. The company of Interviewee D was originally a Finnish company which was sold first to a Central European multinational company and then again to a Scandinavian multinational company. The main motivations in these acquisitions were gaining access to new markets and strengthening market position. All four companies represent well their industries and markets.

This section is divided to four chapters based on the grouping of the data to fit the research sub-objectives. The first chapter involves the target selection, i.e. identifying the customers. The second chapter involves the assessment of the target and its customers. The third chapter involves the post-acquisition phase. The chapters are based on the data collected from the four interviews and the results are presented together as the objective of this study was to understand how companies in general identify and manage the target company's customers in cross-border acquisitions and not in any specific company or acquisition. Presentation of the results is divided according to the general division of this study to pre-acquisition and post-acquisition phases.

5.1   Identifying the target company's customers

Based on theory the identification of the target company's customers begins by acknowledging the motive for the acquisition i.e. what are the criteria for target selection. As all the knowledge of the target's customers may not be available in the pre-acquisition phase, further knowledge on them can be acquired in the due diligence phase, i.e. in the assessment of the target and its customers. This chapter is divided according to these facts and the results found in the interviews presented separately in these two chapters.

5.1.1   Selection criteria for target companies

To answer the first sub-objective, which is *how does the acquirer identify the target company's customers in the pre-acquisition phase?*. The interviewees were asked questions concerning the motive of acquisitions, target selection and the importance of the target's position in their market and the importance of the target company's customers in the target selection. The results based on the interviews are presented in this chapter.

The general consensus among the interviewees about today's business environment was that companies are required to be aware of the changes in the environment, i.e. competition, newcomers, and about who has invented a new process or invented a new product or service. By constantly scanning and screening the market a company can get information also on the fact that which company could be a potential target. Therefore, the selection of a company to acquire is an ongoing process. Companies scan the market for a possible target mainly due to the growing pressures of global competition and the need to secure revenues. Acquisitions are very much influenced by the strategy of the company, in which the motives for an acquisition are embedded. What to look for on the markets depended on the corporate strategy, i.e. is the company expanding to new markets, buying in new technology, capabilities and so on, or is the motive behind acquisitions simply growth. On the sellers side the key issue was to think about reasons why a foreign company would buy a Finnish company. Finding a suitable buyer meant scanning the markets for a company wanting to expand their business to the north and making sure that their businesses viability and know-how of the personnel was known in the markets.

All three interviewees representing the acquirer side confirmed that suggestions for acquisitions mostly come from inside the company. In the case of the seller the desire to sell the company came also from within. Different departments give their suggestions of potential targets which are then taken into consideration on a higher level. These suggestions were revised and compared to the strategy of the company. To make these suggestions, companies may have area managers as responsible of scanning their own areas for potential targets as the following quote from the M&A Director implied:

> *"In principal, everybody can suggest a potential target that they believe would be worth acquiring". (M&A Director, 2009)*

The responsibility to find suitable targets that would complement the company's business operations in these situations was on the personnel. Investment banks and other M&A brokers are actively proposing potential targets to companies. Investors are most active in proposing potential targets for some bigger corporations. Outside experts may,

in some cases, have the best knowledge of the markets and what targets would best suite the acquirer since the acquirer may not have access to all the available information and they may not have time to scan the markets themselves. Experiences on the seller's side were that when the seller puts the company for sale, they were the ones contacting other companies. So the initiative in those cases came from the seller. In the seller's situation, the best place to make the market aware of the company being on sale was industry conferences. External advisors, i.e. investment banks etc, are also used when the potential target is sought from businesses unrelated to the company's current business or if there is not enough information available about the market that is sought after.

The basic reason why acquisitions are performed in all of the examples is the same i.e. acquisitions are an integral part of the corporate strategy. If the competence is not found in-house, it is acquired through an acquisition. This fact emphasizes the facts found also in the M&A theory that acquisitions are the fastest way to gain competence or technology or products with minimal input on for example product development. All of the three companies that represented the acquirer side highlighted the importance of developing the company's competences in certain areas as the quote from the CSO implies:

> *"The motivation for an acquisition comes from the corporate strategy and of course from the growth strategy and desired direction of development of the company. This usually helps to form the idea of where the possible need for improving exists and where true potential can be found". (CSO, 2009)*

The implemented strategy in the company helps to identify which are the areas in the company that need to be strengthened and where the potential exists. The results implicated that a "wish list" of targets can be made usually through an examination of capabilities and competences of the targets, and through a competitive analysis. What a company wishes to achieve through acquisitions varied. The motivation behind an acquisition may be to access new markets or following the demand to a certain area. For example, one of the interviewees mentioned that in their industry the demand is shifting to the BRIC countries (Brazil, Russia, India and China) and that it is therefore important to be present in those markets. An important factor in acquisitions concerning target companies, which was stated, is that they have to be profitable and they have to have some kind of growth potential in the future, which the following quote reflects:

> *"Basically what is being bought is money". (CEO, 2009)*

In the interviews it became evident that in general, concerning strategic acquisition, the main motives can be determined as acquiring capabilities, customers and more revenues. In the service industry customers are without a doubt very important. Capabilities were a factor mentioned many times during the interviews. Acquisitions were found to be a sound way to acquire more capabilities and knowledge which might not be possible to find in house. Customers were also mentioned between the lines. When the desired outcome of an acquisition is profits and larger market share, it can be concluded that the customers are the source of these outcomes. Every company makes sales by selling something to someone, may it be products or services. However, the importance of customers, when making an acquisition decision, depends on the situation. Customers can be a motivational element in the acquisition decision when a company is strengthening its position in a market as the CSO pointed out:

> *"Customers are important in cases where your market share in a given market is below the potential of that market. In these cases you go and buy that potential. The key in these cases is that the market share of the target has to be exploitable in your own business". (CSO 2009)*

Customers were said to become very important when the customer is responsible of, for example, 70% the target's turn over. On the contrary, customers are not perceived that important when the customer base is very fragmented. Other factors, for example capabilities that were mentioned earlier, become more important in these situations. It was mentioned in the interviews, however, that it is difficult to access information on customers before the deal goes forward to the due diligence phase. Contracts and other information concerning a company's customers is not public information and objective information is not always available. One way to get some idea of the target's business is by looking at its network. However, in an industry and market where there are not so many players and everybody knows everybody and who you are doing business with. In this framework it is easy to conclude the customers also. The target company's market position and market share are also factors that make the target more or less desirable for acquisition. The network and its potential may also be assessed alongside with the market share. There might be elements in the target's network that make the target more desirable, for example, if it is possible to combine certain processes like the sales channel etc., the acquirer usually has an established network and how the acquired company is going to be integrated to that network is something that has to be assessed already when scanning the market for potential targets.

Based on the results, the pre-acquisition phase does not necessarily recognize customers at this stage and it was found out that customers rarely are the sole motive for acquisition. They might be an additional factor in the motive. There seemed to be,

however, an indirect interest in customers when the acquisition was motivated by market expansion and increasing revenues. Another customer implication came from the CEO and the M&A Manager, in whose industries customers are often a key element in target selection and acquisition motivation. All in all, target selection and how customers are considered in that process are heavily affected by the acquisition motive. The next chapter moves on to the results based on further assessment of the target and its customers.

5.1.2   *The assessment of the target company and its customers*

After the target selection the acquisition process continues to the analyzing of the target company, i.e. due diligence. The interviewees were asked questions concerning the due diligence process and what are the key elements the companies always look up in this phase in order to find answers to the sub-objective, which is *how is the significance of the target company's customers assessed?*.

The first thing is the financial audit of the target. This analysis was said to be important because the acquirer needs to be sure that the business of the target is at the level it is said to be. Usually this is done by impartial financial experts, i.e. consultants or accountants who then report the facts to the acquirer. These impartial experts also go through all the contracts that the target company has with its customers. This is done to ensure that the business is sustainable and to determine possible risks. The interviewees pointed out that it is possible to make some conclusions from the public financial facts given in press releases but the first task is to get beneath public figures and get more detailed information. On the sellers side the due diligence process is a very sensitive issue. The seller must be careful what kind of information they give, for example customer lists are rarely given to the buyer, who in turn is interested in all the smallest details to minimize the risks in the acquisition as the CEO pointed out:

> *"It is a balancing act where, on the one hand, you should tell a lot but, on the other hand, you have to keep in mind that if the deal does not realize, you haven't given too much information". (CEO 2009)*

Based on the results it was found that large companies usually have standardized and structured due diligence tools and procedures. The standard is a template that is followed in every acquisition to which elements are added or removed according to each specific acquisition. This means that the factors that are analyzed are basically at the starting point all the same. The due diligence process is modified according to what kind of an acquisition is in question. The financial elements that are analyzed generally

stay the same but if the acquisition is motivated by market expansion, elements that are needed to assess the market potential etc. are added.

> *"Our due diligence process, and the whole acquisition process, is described very specifically. We have a process model, which describes how the entire acquisition process progresses in our organization. We also have a manual, which works as a check-list of what has needs to be done at each step of the way". (SVP Business Development, 2009)*

The whole process of analyzing the target was said to take from three to six months. However, the interviewees pointed out that the analysis is an ongoing process, which pace depends on how serious the acquirer and the target are about the deal. The results of the due diligence give the acquirer an indication what the sound purchasing price should be. This purchasing price is then offered to the target and if both companies still agree on the details, the analysis goes further to analyzing the softer values, which are required for planning the integration process. When analyzing the soft values of the target, the tools to analyze them vary depending on the target. The interviews pointed out that it is not possible to apply one single analysis method to every company as the ways companies are managed varies, which is quite obvious, nevertheless an important fact in the due diligence. Possible synergies and best practices are also sought for in managerial audits. Synergies were mentioned to be an important element in the analysis, being an essential issue when an acquirer seeks to grow revenues in the acquisition. Different kinds of synergies can be achieved depending on the target in question, for example synergies in sales or distribution etc. The synergies that are hoped to achieve through the acquisition are defined in the strategic aim of the acquisition.

The analysis of the target's customer base derives from assessing the target's market share, competition and its network. In many industries the network is vital to the sustainability of the business in certain industries as the CEO brought up:

> *"If the network fails, what did the acquirer actually acquire". (CEO, 2009)*

The network also represents possible synergy benefits in terms of distribution etc. It was found that in some industries it is very simple to specify all the different actors that operate in the target's network, including customers. The network is a viable source of information about the target when assessing its position in the market. However, in most cases even the actors in a network can be difficult to specify and creative tools have to be used to find the information. Tools, such as "Google" and using personal contacts

were mentioned. Outsourcing these analyses is not necessarily common as the quote from the M&A Manager implied:

> *"We don't have a systematic culture of using external sources for market analyses etc. We believe that it is necessary that we are able to form the picture ourselves or otherwise we are treading on dangerous paths. It is not possible to outsource". (M&A Manager 2009)*

In the theoretical framework it was stated that by performing market share analysis and competitive analysis the acquirer can assess whether the business of the target is sustainable (e.g. Pack 2002). The results show that in practice, general competitive analyses and market analyses are performed. One way of assessing the customer base of the target company, which was mentioned, is to review the business over time, i.e. has the level of profitability been continuous or is the company being sold at the peak of its profitability. The target's market share was seen to be important when the acquirer's intention is to get access to a new market or to strengthen its position within the customer base in a certain market. What was also said to be of importance is the market potential in which the target operates in, i.e. the market's growth possibilities and the possibility to create new business in that market. In some situations the target company may be a competitor of the acquirer and it was said that in these situations the potential benefits of combining the two companies is crucial.

When considering the customer base, three important factors were mentioned. These factors were the permanence of the customer base, the profitability of the customer base and the possibilities to discover new services or products to offer for the customer base that the acquirer was not able to offer before the acquisition. If the target possesses a good service or product that can be used in the acquirer's services or product, this was said to increases the profitability of existing clients while possibly acquiring new ones. The possibility of cross-selling was also seen as an important part of the consideration. Based on the results, cross-selling makes it possible to earn even more revenue from the existing customers of both companies. One factor that summed up all the other factors was strategic fit as the M&A Manager pointed out:

> *"One of the most important issues which cannot be overlooked is the strategic fit of the target. Of course, there are always elements that do not fit entirely but the strategic fit is the first 'show stopper' in the process if it is not found". (M&A Manager 2009)*

These deal braking elements can be, for example if the target does business with undesirable markets or segments in the market, it becomes evident that the target is not

a desirable company to acquire. These undesirable issues may be for example bribery or other issues that conflict whit the acquirer's ethical conduct. The due diligence process is an extensive analysis of the target and it gives a very broad view of the target company. The main reason for the difficulty of assessing the customers and other relevant actors was said to be the level of secrecy that the acquisition process requires. The inner circle is usually very small and is kept that way throughout the process. At times the acquirer has to resort to contacting other business partners in order to receive more information on the target. Before moving on to results on the integration and management of customers it is necessary to mention that in all four examples the acquired company was fully integrated in to the acquirer company i.e. the absorption integration approach (see Figure 3).

5.2   Managing the customers in the post-acquisition phase

The third set of questions aimed at gaining answers to the third sub-objective, which is *how the acquired customers are managed after the acquisition*. The interviewees were asked questions concerning when is the integration plan made, how is it implemented and how do they communicate about the acquisition to relevant parties.

When the analysis has proven that the target is a suitable acquisition and negotiations have lead to the acquisition being realized, the integration begins. However, the consensus among the interviewees was that the integration plan has to be formulated well before the due diligence phase of the acquisition process, which also supports the theory. Forming the integration plan at the pre-acquisition stage ensures that the information gathered in the due diligence will be taken in to account in the integration plan. However, a good manager should have, already in the due diligence phase, good knowledge about the target and what can be done with it as the CSO pointed out:

> *"A well run company should have information about the target and what can be done with it already at the early stage". (CSO, 2009)*

The financial information gathered on the target company needs to be revised along the integration process and afterwards. What was agreed on was that an outline of the integration plan has to be done at the analysing stage of the process. Making an outline was said to help testing different scenarios of the possible outcome of the acquisition. A situation where the deal is signed and the integration plan is yet to be made was said to be very risky. In service industries where the turnover heavily depends on customers and personnel, it was said to be crucial to have an integration plan ready as early as possible. Companies in these industries receive in the acquisition of course the target's

business, however, their main concern are the customers and the personnel of the acquired company, which the M&A Director pointed out:

> *"If you mess up the integration, the machinery will stay on the lot, but what you risk to lose are the personnel and the customers". (M&A Director, 2009)*

Based on the results, the integration plan evolves throughout the process and the even the final plan will be revised and re-revised along the process. The first tasks in the integration were said to be checking if there are overlapping products or services that can be combined or removed and distributing the integration tasks between the parties merging. In addition, the most important task was said to be communicating about the acquisition to different interest groups. Public companies have to announce the acquisition immediately in the media after the acquisition deal has been made. However, there are a few people in the inner circle who are aware of the deal in both companies. What was mentioned in the interviews about the communication process was that public companies prepare letters and visits to the most important customers in both companies before the public announcement in order to be ready to implement the necessary actions for reassuring these customers. One company stood out, since they were not a public company, so the need for press releases and such was not obligatory and they could inform their customers about the acquisition at any time. The importance of communication was emphasised:

> *"In practice we have the plans ready so that when the press release is issued we are prepared. Communication is crucial to all relevant parties in the acquisition; the organisation, customers and owners". (SVP Business Development 2009)*

What was said to be important was that customers should get the news at the same time as the press release is issued. According to the interviewees, another interest group which needs to receive the information about the acquisition are employees of both companies. The reaction of the personnel has a huge impact also on the customers, since the especially the sales personnel who represent the company to the customer. Reassuring the personnel was seen very important; telling them that everything is as it used to be, and if lay offs are required, all the interviewees agreed that they must be done swiftly and decisively and then reassure the remaining personnel that there will be no more lay offs. Communication, all in all, is considered to be very important. Breaks and quality drops in service and deliveries are inevitable. Letters and personal visits to

customer companies are important in retaining the customers. Integrating the acquired company is an arduous task and as the SVP Business Development puts it:

> *"At first the acquired company is like a dismembered limb or organ that needs to be made a part of the organisation as quickly as possible". (SVP Business Development, 2009)*

Speed in integration is essential, in theory and practice. The first things to integrate were said to be the systems and people. Consolidating sales, financial and human resources systems is the first task after announcing the acquisition. Setting up the new organization and getting rid of overlapping systems quickly ensures that the business can continue as usual as soon as possible. Taking over the new business and implementing the integration as quickly as possible is important because in general the resistance for change and the acceptance for changes is lower in the beginning. Less overlaps and conflicting systems means also more value to the customers. The acquired company's perspective in this situation offered an interesting view, since in their case the system in which theirs was integrated did not offer any improvements in the systems rather the system of the acquirer was less developed than their own. The famous "first 100 days" was said to be used as a guideline in integrating the most important elements but in reality it is almost impossible to integrate the acquired company wholly, as a fully functional part of the acquirer, in 100 days. A consensus among the interviewees was that completing the integration takes up to 12 months or more. However, it is possible to get the new organization functioning in a shorter time. Yet, the interviewees agreed on that 6 months is a very long time in the customer's perspective. The important thing, in the customer perspective, was to homogenize the sales and invoicing systems so that the customer will continue to view a uniform image of the merged companies within the first few months. In some situations that came up in the results was that the acquired company served the customers with their own image material and systems for a while before the systems were integrated wholly to the acquired company, forming a hybrid of both systems. This was done in order not to cause too much change at once to the customers and so the reduce uncertainty among the customers as the quote from the Seller company's CEO reveals:

> *"We operated for over a year with two sets of invoices and with two different images even though we were the same company. The customers received exactly the same looking invoices and mails as they were used to receive. We knew that during the next year the customers were going to receive only one type of invoice and one type of answer from the company. The purpose was to keep the change incremental for the customers". (CEO, 2009)*

What became evident in the interviews was that preparing the integration plan carefully is not enough as the plan will not be implemented on its own. A carefully planned integration has to be followed up on a regular basis. A normal procedure was that the first follow up is done one month after the acquisition, the next after three months, then after six months and then after a year. This way it is possible to check that everything is going as planned and if there are problems, proper action can be taken and changed made. The further the integration goes the more evident it becomes how much work there is to be done and what adjustment to the integration plan needs to be made. Following up was considered an important issue as the M&A Director pointed out:

> *"I'm a great believer in following up. If you don't check up on people and see that the things get done, they probably won't get done". (M&A Director, 2009)*

This follow up is also applied to customers. The visits to customers are done every now and then to make sure that everything is running smoothly. Reassuring the customer base was said to be done also by retaining the account managers from the acquired company. If any changes in the people who the customers have used to be in contact with have to be made, they have to be made according to the importance of the customer. The more personified the business is the more dependent it is on the account manager, who might have served the customer for years. This is more often the case with smaller companies in the service industry. Larger companies are used to dealing with multiple account managers. In addition, based on the results, it was said that nowadays customers are more used to having several contact people rather than just one. International customers understand that in an international environment people may change and that it is also expected. And as business becomes more dependent on the Internet, the importance of a single contact person is decreases. Keeping or changing account managers depended on each acquisition. If the acquirer perceives that they can serve the customers better with their existing sales force the account managers of the acquired company might be changed. The consensus among the interviewees was that best practices in customer relationship management are sought and then kept or modified to suite the new combined entity. Customer relationship management (CRM) systems are integrated into the acquirers systems. This came also from the seeking of best practices in the merged companies and is a part of the synergy benefits. Based on the results if the CRM systems are big enough and different from the acquirers systems and it is possible to see that no replacing systems exist in the acquirers systems, the acquired company's CRM is integrated. The CRM integration was seen as an important part of the entire systems integration as it is necessary to get the information flow about the customers up and running as soon as possible. This helps the acquirer to see what

else needs to be done in order to get the customers integrated and how well the customers integrate in the account management, especially in cross-border acquisitions. However, in general, it is not possible to integrate operative systems, production and software since they often are very business specific as the quote by the M&A Director implied:

"You cannot shutdown all existing systems and tell them that from now on, you'll do everything in SAP. Our general rule is that everything is integrated to our systems, but we cannot be greedy. It needs to be done in stages". (M&A Director, 2009)

The customers acquired in the acquisition do not often receive any special treatment compared to the acquirers existing customers. Every company has their own way of managing the customers so the key is to not change the customer relationship management processes too much too quickly. In cross-border acquisitions there might be differences in CRM embedded in the culture of the country which have to be taken into consideration. However, the results show that an acquirer operating globally or multi-culturally does not have problems with this, since they usually have a global corporate culture in which a foreign target is easy to integrate. A global or international company has different ways of operating in different areas, i.e. it doesn't necessarily put out the same image in every country. These differences need to be checked already in the due diligence phase. Based on the results, it was kept unwise that the relevant cultural or other issues that cross-border acquisitions bring to the whole acquisition process would be overlooked as the CSO pointed out:

"If your company is organized to operate globally or internationally, the organization and the processes are managed accordingly. However, it is imperative that the differences in customer relationship management are checked in the due diligence phase". (CSO, 2009)

The expected outcome of the acquisition is then measured in terms of revenue. There are always some financial gain expectations that are envisioned to come out of the acquisition. These expectations were said not to be directly imposed on the customer. The acquired company is expected to bring in the same amount of income as it did alone, so this then indirectly puts expectations on the acquired company's customer base. What the interviewees agreed on was that the acquired company's responsibility is to ensure that the customers are doing business with them at the same level as before. Some customer defection is, however, expected in every acquisition. Customers were said to have a tendency to act opportunistically in acquisition situations. They might try

to get out of the existing contracts or get better terms in their contracts, especially at these times when companies are trying to save money in every action. Customer contracts sometimes have clauses on change of ownership which allows them to leave in the case of the company being acquired by another company. If the customer was served by both of the companies, acquired and acquirer, they might begin to bargain and try to get the cheaper contract from the two. Reacting to the opportunistic behavior of customers should be a part of the integration plan. If acquirers do not prepare for this, greater customer losses can be expected. The way that this is handled depends on the customer.

> *"The smaller the customer, the easier it is to say no to them". (M&A Director, 2009)*

Based on the results, keeping the customers and ensuring the desired outcome of the acquisition is done by efficient communication and revision of the integration plan. The financial development is relatively easy to follow up from balance sheets, however, the softer values that affect the revenues need to be followed up more personally and adjustments made, during the process, accordingly if problems or dissatisfaction arise. Following up on the progress and development of the integration is crucial to the success of the acquisition. The main empirical findings will be presented and discussed in the following section.

6   CONCLUSIONS

This section offers discussion on the empirical findings in the light of the theoretical framework and concluding discussion including, managerial implications. This section ends by giving suggestions for further studies.

6.1   Discussion on the main empirical findings in light of theory

The empirical research provided interesting findings, which help to further understand the rationale behind cross-border acquisitions and how customers are identified and managed in the acquisition process. The empirical findings in relation with the theoretical framework are presented in Figure 7.
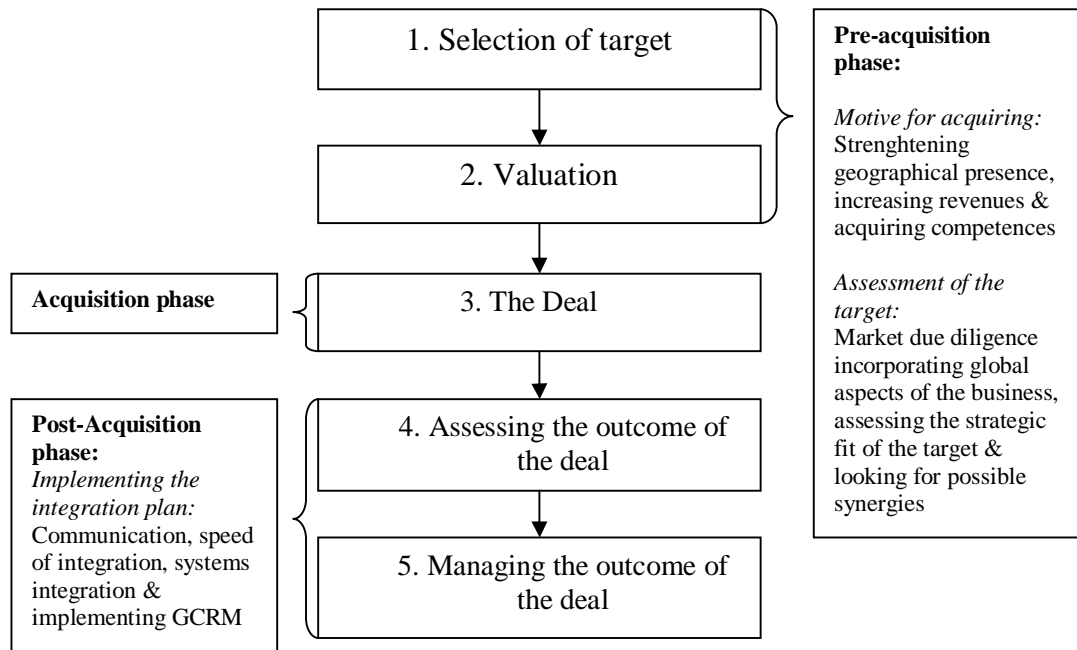

Figure 7   Customer focused stages in the acquisition process based on the empirical findings

The general motives for acquiring, of the companies chosen to illustrate the case, were in line with the general motives for acquiring a foreign company (see Table 1; Jagersma 2005). The empirical results pointed out that *the main motives for acquiring were strengthening geographical presence, increasing revenues and acquiring competences* (see Figure 7). From these motives it can be said that customers are in the center of each motive. Revenues are increased by acquiring a company that is able to

bring more business to the existing one and this is achieved generally by serving more customers in a particular market or securing reoccurring purchases from the customer. Increasing revenues is important for companies who offer products or services that take a long time to realize or are one time transactions of great value. Therefore, in these industries increasing revenues may come from, for example investing in after sales and acquiring according to that aspiration. Strengthening geographical presence in the empirical findings was said to involve the issue of realizing that the company's position in a given market could be enhanced through acquiring a competitor from that market.

The illustrative companies had all acquired companies whose businesses were related to their own. The related acquisitions in these illustrative examples were complementary (see Salter & Weinhold 1981). The companies had not bought in new products or technologies in these situations. In Interviewee D's case the situation was that the company that acquired them the first time wanted access to the Russian markets. The motivation in this situation was clearly entering new markets. The acquired company, i.e. Interviewee D, did not bring any new services or products for the acquirer. What they gained from this acquisition were new customers with presence in the new market. Another important finding to mention is the service industry in which the Interviewee C operates. The service industry is heavily dependent on customers and the acquisitions in this industry are motivated by the customers in many situations. Another motive for acquisitions, which was mentioned several times, was acquiring capabilities. Companies seem to acquire competences which they cannot find or develop in house (see Shimizu et al. 2004). This reflects to the global pressure companies are facing these days. Capabilities and know-how have to be constantly updated and developing them in house may be too slow compared to the pace of globalization and the pace of evolving customer needs. Acquisitions seem to be the fastest and soundest way to acquire these required capabilities.

Traditional due diligence was acknowledged in the empirical findings. *Due diligence was seen as a crucial part of any acquisition whatever the size of the deal.* An indication to the fact that the companies are active acquirers was that they have standardized procedures for the whole acquisition process and templates for due diligence. Having these templates and standards facilitates the process, and other important elements can be added to the templates according to the acquisition in question. The findings imply that *companies, in practice, rarely leave market due diligence out of the equation.* It was seen important to do a thorough analysis of the potential in the market where the target operates in. Again customers are not directly mentioned but it is quite evident that assessing market potential includes customers. The due diligence covers assessment of the targets contracts with suppliers and customers in addition to assessing the viability of the target's business. *Due diligence gives the acquirer the possibility to cross-check their own customer portfolio with the target's*

customer portfolio (see Clemente & Greenspan 1998; Table 2) *in order to see if there are overlaps or new potential*. However, this information may not come to the acquirer as customer lists. Companies are not willing to give too much information before the deal is closed. It is mainly for self protection since giving too much information on customers may reduce the competitive advantage of the company in the situation where the deal fails to realize. Another essential element which is analyzed in the due diligence is the possibility for cross-selling. Cross-selling makes it possible to increase revenues when combining the two companies. In addition, products and services of the target are revised to see if there are similarities in the product or service offering. The acquirer can then either integrate them to their own offering or remove these products or services all together.

When assessing the target, strategic fit was considered to be an extremely important factor. However, achieving perfect strategic fit was said to be very hard in reality, since there are always some parts of the target company that usually do not fit, which is expected. If the target does business with undesirable markets or segments in the market, it becomes evident that the target is not a desirable company to acquire. In cross-border acquisitions undesirability may arise from the way the target conducts its business, for example corruption or other ethical issues that are in conflict with the acquirers own business conduct. However, due diligence is a tool that brings these elements to light and makes it possible for the acquirer to walk away from the deal. In larger global companies these factors were said to be already known and targets operating in certain countries are avoided.

The key empirical finding concerning integration was that, *the integration plan has to be made well in advance at a very early stage*. The acquirer should know what can be done with the target even before the deal is closed. *The integration plan evolves throughout the process and the final plan will be reviewed even after the deal has been made*. The first tasks in the integration are to combined or remove the overlapping products or services, found in the due diligence. The integration implementation has to include the acquired company and efficient distribution of tasks. This means that the expected outcomes of the acquisition may not be achieved without joint efforts (see Shrivastava 1986). In the customer perspective this means for example involving the personnel of the acquired company to work together to ease the transition phase for the customer (see Franken et al. 2008).

The findings emphasise *the speed of the integration* (see also Homburg & Bucerius 2006). Even though the "first 100 days"-mentality is kept as reference, integration usually takes longer. The integration was said to take from 12 months to 18 months in total. Even then, there might be elements that are still in the transition phase. *The first what needs to be integrated are people, as they make up the company*. If personnel are

lost during the process it can be devastating and there is the possibility that personnel walk away with potentially important customers.

Followed by the personnel are the critical systems, such as IT, accounting and sales. These facilitate the day to day operations of both companies. The system integration important also, because the systems with which customers are managed need to be uniform so that the customer receives service from and contacts only one company profile. *The CRM systems are as important as the people in charge of the customers.* The acquired company's CRM needs to be evaluated as quickly as possible and consolidated to the system of the acquirer. This may take longer than integrating other systems due to the very different systems with which companies manage their customers. The findings imply that best practices are sought and integrated in the acquired company's CRM if it can be seen that replacing it is impossible and if the CRM system is extensive enough. The empirical findings imply that large companies, whether global or multi-national, have a international corporate culture and global CRM systems. Therefore it is easy to integrate a cross-border acquisition to the existing GCRM system and they rarely have issues concerning cultural problems, since they are accustomed to them in daily business.

Communication about the acquisition was critical according to the empirical findings. *A clear communication plan is made to inform the customers and other relevant parties involved or affected by the acquisition.* The companies did not appear to have a special customer focused integration team (see Franken et al. 2008) to execute the communication plan. However, the responsibility of the customers is on the personnel involved in the acquisition. These people make sure that the customers are informed about the acquisition and its phases as soon as it is possible to inform about the acquisition. These people make customer visits or send the letters to each customer explaining to them what the acquisition means to them. This is done to reassure the customers so that the customer loss is kept at a minimum, even though some customer loss is expected. Even though integration was said to be implemented as fast as possible, it should not be done too hastily. This can result in poor integration, as the main purpose of the integration is to bring the companies together to operate efficiently as a single unit.

The empirical findings were supported by theory as in practice the acquisition process is followed-through as the theory implies. There were some differences found between the companies originating from the industry they operate in. Interviewee A operates in a technology driven industry, where the key to success lies in innovation, accessing new technologies and acquiring patents. The transactions in the market of Interviewee A are one time transactions but they may span over decades so the number of customers are completely different from the industry of Interviewee C and D. As mentioned in section 5 interviewee A is concentrating in the after sales business in order

to secure continuous revenues from their customers. The industries of the other interviewees are more customer driven. They presented more customer focused motives for acquiring other companies, for example strengthening market position and access to new markets.

In the efforts to identify customer it can be summarized, based on the findings, that it is a very difficult task and involves great efforts from the acquirer. In some cases it is possible that the target's customers are easily identifiable but when venturing in to completely new markets it can be more difficult depending on how connected the acquirer is in that market. The customers of a competitor are probably the easiest to identify as they usually are the same as the acquirer's. The significance of the target and its customers is assessed based on financial figures, i.e. revenues. The target company's customers are managed the same way as the existing customers. To remove uncertainty and insecurity, the speed of integration is important. The customer is concerned about the continuity of the transaction and therefore it is necessary that the systems and operation concerning daily business are integrated as quickly as possible. The challenges with customers after acquisition relate mainly to contracts and prices. Integration and following up were mentioned to be the key to a successful acquisition. The following chapter offers the concluding discussion and the managerial implications of this study.

6.2   Concluding discussion and managerial implications

Based on the research results on how the target company's customers are identified and managed in cross-border acquisitions the following conclusions and managerial implications can be made.

Identification of the target company's customers is not an easy task, as information on confidential customer contracts is not necessarily available. Acquiring companies from the same industry or the same market may facilitate the identification of the target company's customers before the acquisition process progresses. Identification of the customers begins with assessing the market position and the competitive environment of the target. From this analysis the acquirer can conclude the proportion of the target company's market share. Information on the market position and share is also available on the target company's annual reports, may it be objective or not, it might be the first source of information available. Other financial reports on the market in general may assist also in this analysis. If the acquirer operates in the same market and the target company is its competitor, this analysis becomes more accurate and easier, since the acquirer already knows the customers on the market. Getting more in-depth information on the target company's customers may require using external advisors who are able to

review the target's contracts. It is possible to conclude also that how easily the customers can be identified depends on the acquisition situation. If the target company is very willing to be acquired and there is mutual co-operation and understanding between the two companies, the target might be more willing to share sensitive information.

Assessing the significance of the target company's customer base follows the same guidelines as the identification of these customers. The significance is measured in financial terms. The customers are more significant if the target company's market share is substantial. However, there might be only a few customers that interest the acquirer, for example in the Interviewee A's case in North America. The acquired company was serving the same important customer as Interviewee A, so the customer became a more significant aspect in that particular acquisition. In industries where the customer bases comprise of only few customers these situations are possible, but for example the service industry where the customer base comprises a large quantity of customers who do business with several companies, the identification and assessing the significance is much more difficult. So to conclude on the assessment of the significance of the target company's customers, it can be said that the significance of customers or a single customer depends on the industry and market of both the acquirer and the target. The tools to identify and assess the target company's customers do not differ from the general market analysis tools or the general due diligence tools. It is required of the acquirer to be aware of the fact that these analyses have to be paid attention to when the acquisitions are motivated by market expansion, strengthening market position or just simply growth. They are critical elements that need attention in the early stages of the acquisition in order for the integration to be successful. The last opportunity to access the target's customer information is the integration phase. After the acquisition is finalized, the acquirer gains access to all information on the target.

As theory and practice suggest, the post-acquisition phase is critical. It can be described as the "*make it or brake it*" situation, where implementation of the integration has to be revised on a regular basis for it to be successful. Customers usually get information about the acquisition only when the deal is actually closed and this causes uncertainty. The acquirer has to make sure that they have a sound communication plan along with the integration plan to remove these uncertainties. Customer visits and letters are proven to be the best practice for this. What is recommended is that in addition to visits and letters, regular follow ups are done to make sure that the customers have perceived that the integration has turned out as promised. Retaining the customers is achieved by reassuring them that the new merged company is better for them than the two companies separately. This means that the GCRM of both companies has to be consolidated and new management procedures implemented as soon as possible, however, keeping the changes as incremental as possible to cause as little disturbance

for the customers as possible. It is a delicate balance of getting the integration done as fast as possible and assuring customers. This however requires that the acquirer has established a global CRM. Large global companies have these systems but companies going abroad for the first time need to incorporate all the elements that the international environment brings to their CRM. Finding out all the differences between the target's country and the acquirer's home country have to be taken into account in order to manage the customers properly. Failing to acknowledge the differences will result in failure of the acquisition, as it is highly likely that the customers will defect. A well designed and implemented integration plan, which takes customers in to account is the key to a successful acquisition. In conclusion, a successful acquisition includes thorough analysis of the target company's market and the competitive environment, a carefully planned integration plan, which includes a sound communication plan and a customer retention plan, having a GCRM system to which the target company's CRM is integrated and regular reviews on the implementation of the integration.

6.3   Suggestions for further studies

This study provided useful data on how to identify and manage customers in cross-border acquisitions, a field of study in the M&A research, which has not been paid much attention to. However, there are possibilities to expand the customer perspective even more.

Studies on how successful the acquisitions have been to produce more revenues through acquiring the target company's customers would be beneficial. This kind of research could be quantitative and could be conducted as mentioned above or from the perspective of customer retention in relation to revenues. Another perspective could be that, do the acquired company's customers keep doing business at the same level as they did with before the acquisition i.e. does the acquisition create more value to the customers. This perspective could be done as a qualitative research or as a combination of qualitative and quantitative.

In this study the companies chosen to illustrate the case were mainly from the acquirer's side. One company represented the acquired company. A study from solely the acquired company's perspective could be done. In this study the perspective could be on how the integration went and compare it to the promises made and the reality of the integration. Taking the perspective of the acquired company could also give access to the acquired company's customers. The study in this case could focus on the effects the acquisition had on the customers and gain even more insight on how customers are actually managed, from their perspective, in cross-border acquisitions. In this study it was found that the role of the customers in the acquisitions was passive. This means that

the initiative for the acquisition and customer's active participation in the acquisition process was not present in these cases. Another suggestion for further study is that active customers could be sought and the study be conducted from that perspective, i.e. when the pressure for acquisition comes from the customers. As said the M&A field of research is vast and possibilities for further studying the customer perspective in M&As are numerous.

7   SUMMARY

The amount of mergers and acquisitions (M&A) has been increasing during the past couple of decades due to the global change of the business environment and a lot of money has been involved in these transactions. Companies pursuing cross-border acquisitions usually have the following motives behind the decision; growth, increasing shareholder value and the want to become international. Internationalisation is especially the main motive when a company is acquiring outside its national borders for the first time. Acquisition is the fastest way to enter a new market or strengthen the company's geographical presence in a country. Increasing shareholder value is also one of the main motives for pursuing cross-border acquisitions. When the home market becomes saturated or mature enough, companies may seek for more revenues outside the home country. Even though it is possible to separate different motives for cross-border acquisitions, one can conclude that they tend to involve more than one particular motive.

Once a company has defined in their strategy to pursue cross-border acquisitions, it needs to start planning the acquisition process and begin to look for potential targets. Due diligence is an important element of the pre-acquisition process; one could say that it is even a vital part of the process. It is important to do a thorough due diligence in order to minimize risk and the potential for the acquisition to fail. After having conducted a thorough due diligence the acquirer can form an idea of the target's business and how viable the business is. This helps in the negotiations to set a purchasing price for the target. Customer oriented pre-acquisition phase does not differ that much from the traditional pre-acquisition phase. It emphasizes the important elements concerning customers, which are the customers' market, their position in that market, competition, etc. An acquisition where the main motive is to get access to a certain market and access to the customers in that market, it is essential to consider these elements when scanning for potential targets. The customer oriented pre-acquisition phase does not mean that the customers in the specific market are necessarily examined but the relationship the possible target has with the customers in that market. The target company's market share in a given market gives implication to what is possible to achieve in that market by acquiring that company. Customer orientation does not end to the pre-acquisition phase. Integration has to be customer oriented as well in order to maximize the benefits of a customer oriented acquisition.

In the end, the way integration is managed defines the outcome of the acquisition. A successful integration begins even before the deal is made, in the pre-acquisition phase, and requires both companies to work together in order to achieve the set goals. The integration varies, depending on the approach the acquirer chooses. In absorption acquisitions the target is fully integrated to the acquirer and all boundaries between the

companies are dissolved. In preservation acquisitions, the target company's core elements are kept untouched in order not for the acquired company's way of doing business, which is the source of the acquisition benefits, not to deteriorate. Symbiotic acquisitions are a combination of absorption and preservation acquisitions. The acquirer should have a plan what they wish to achieve in the acquisition and plan the integration accordingly. It is important to revise the integration plan during the process as new information about the target is received and adjust the plan accordingly. The information found in the due diligence must be incorporated to the integration plan. In cross-border acquisitions this becomes very important as the due diligence involves cultural, environmental and regulatory issues that have to be addressed in the integration phase. Having a customer oriented take on the post-acquisition phase involves a clearly and precisely formed integration plan, which takes customers into account. Integration is the phase where the acquisition objectives realise and the implementation of the integration plan is essential. If it is not followed through as planned, the result may be failure in the acquisition as the set objectives are not achieved. The main points mentioned in this chapter were that the most important elements concerning customers are the speed of the integration, retaining the right personnel, formulating and implanting a customer retention plan and communication of the acquisition. All these elements have to be incorporated and planned along with the general integration plan well before the deal is realised and reviewed throughout the acquisition process. In this way a customer focused post-acquisition does not differ from the traditional phase. Communicating about the acquisition poses problems since there are different laws concerning public and private companies. But managing the communication as efficiently and as quickly as possible is necessary regardless of the corporate form.

Acquisition success is not easily reached. The success depends on various factors and elements, all of which may not be controlled by the acquirer. The acquirer, however, has tools to minimize these risks and the possibility of the acquisition to fail. It requires thorough analysis and focus throughout the entire process. In the pre-acquisition phase it is essential to do the due diligence right and make the effort to find all the possible information that could lead to the failure of the acquisition. For cross-border acquisitions this means that all the cultural and environmental issues have to be taken into account in the due diligence. It is also essential to plan the integration well before the acquisition but also to revise the plan during the process. Implementing the integration plan and following-up on the implementation is also crucial to achieve a successful acquisition.

The objective of this study was to find out *how the target company's customers are identified and managed in cross-border acquisitions*. To answer the main objective, three sub-objectives were formulated. First, *how does the acquirer identify the target company's customers in the pre-acquisition phase?* Second, *how is the significance of*

the target company's customers assessed? Third *how the acquired customers are managed after the acquisition?* A qualitative research was conducted using a collective case study approach and the empirical data was collected by interviewing representatives from four companies using semi-structured interviews.

The main empirical findings are as follows. The general motives for acquiring, of the companies chosen to illustrate the case, were strengthening geographical presence, increasing revenues and acquiring competences. From these motives it can be said that customers are in the center of each motive. Traditional due diligence is a crucial part of any acquisition whatever the size of the deal. Active acquirers have standardized procedures for the whole acquisition process and templates for due diligence. Having these templates and standards facilitates the process. Other important elements can be added to the templates according to the acquisition in question. Companies rarely leave market due diligence out of the equation. A thorough analysis of the potential in the market where the target operates in is important. The factor summing up all the other factors, when assessing the target company, is strategic fit. However, achieving perfect strategic fit can be somewhat difficult in reality, since there are always some parts of the target company that usually do not fit, which is expected.

The key empirical finding concerning integration was that, the plan has to be made well in advance in a very early stage. The integration plan evolves throughout the process and the final plan will be reviewed once more after the deal is closed. The first tasks in the integration are to combined or remove the overlapping products or services, found in the due diligence, followed but he systems integration, i.e. CRM, financial systems etc. Communication about the acquisition was critical according to the empirical findings. A clear communication plan is made to inform the customers and other relevant parties involved or affected by the acquisition. The companies may not have a special customer focused integration team to execute the communication plan. However, the people involved in the acquisition will perform the task of reassuring the customers. The findings emphasise the speed of the integration. The integration was said to take from 12 months to 18 months in total. Even though integration was seen to be implemented as fast as possible, it should not be done too hastily. This can result in poor integration, as the main purpose of the integration is to bring the companies together to work as a single unit. Acquisition success relies on thorough analysis of the target's business and market, applying GCRM integration and following up on the progress of the integration.

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Interviews:

Interviewee A, Senior Vice President, Business Development. Interview 27.5.2009.

Interviewee B, Chief Strategy Officer. Interview 16.6.2009.

Interviewee C, Mergers and Acquisitions Director. Interview 8.10.2009.

Interviewee D, Chief Executive Officer. Interview 26.5.2009.

APPENDICES

Appendix 1. Operationalization table

Research Objective	Sub-objectives	Theoretical Background	Interview Questions
How the target company's customers are identified and managed in cross-border acquisitions?	*How does the acquirer identify the target company's customers in the pre-acquisition phase?*	*Chapters:* 2.2, 2.3.1., 2.3.2., 3.3.1. *Key words:* Acquisition motives, due diligence, customer oriented pre-acquisition	Set 1: questions 1-2, 7-12 • What type of acquisitions does your organization do/has done? • How does the target selection usually begin? • How would you define your company's network? • How is the target's network analyzed during the acquisition? • How important is the target's network in the acquisition deal? • What factors affect the selecting of the target company? • How is the targets position in the market assessed? • What kind of an effect does the targets position in the market have on the acquisition decision? Set 2: question 1-2 • In which situations can the target company's customers be the motive for acquisition? • What kind of an effect do the target company's customers have on the final acquisition decision?
	How is the significance of the target company's customers assessed?	*Chapters:* 2.3.1., 3.3.1. *Key words:* due diligence, market due diligence	Set 1: questions 3-6 • How are these potential targets analyzed? • When analyzing the target, what factors are especially reviewed? • How long does this phase usually take? • What kinds of standards exist for the analysis of the targets? Set 2: questions 4-5 • How much are the account managers involved in the acquisition (before and after the acquisition)? • What expectations are posed upon the customers of the acquired company?

	How are the acquired customers managed after the acquisition?	*Chapters:* 2.3.4., 3.3.2 *Key words:* post-acquisition phase, integration, customer oriented post-acquisition	**Set 1:** question 13 • How is the integration plan prepared? **Set 2:** question 3 • How are the customers and other interest groups informed about the acquisition? • How much are the account managers involved in the acquisition (before and after the acquisition)? • What expectations are posed upon the customers of the acquired company? **Set 3:** questions 1-11 • What needs to be integrated first to ensure that the business will continue as usual? • How are the facts found in the pre-acquisition and due diligence phases taken in to account in the integration phase? • How are the acquired company's customers taken in to account in the integration phase? • How is it ensured that together the companies produce more value to the customers? • How are the goals pursued in the acquisition achieved? • What is, in your opinion, the most critical in the customer relationship management of acquired company's customers? • How the acquired company's customers are managed compared to your existing customers? • What kind of problems or challenges have there been in doing this? • How is the customer's trust in the company upheld during the acquisition process? • What kind of challenges do you perceive there to be in international customer relationship management? • What kind of differences in customer relationship management have you noticed between countries?

Appendix 2. Interview questions in English

Background questions

- In what functions have you worked in the past?
- What is your current position at the organization?
- In what kind of acquisitions have you been a part of?
    a. Acquirer/Acquired company
    b. What has been your role in these acquisitions?

Set 1. How does the acquirer identify the target company's customers in the pre-acquisition phase?

- What type of acquisitions does your organization do/has done?
    a. What have been the most common motives for the acquisitions?
- How does the target selection usually begin?
- How are these potential targets analyzed?
- When analysing the target, what factors are especially analyzed?
- How long does this phase usually take?
- What kinds of standards exist for the analysis of the targets?
- How would you define your company's network?
    a. Which are focal the actors or interest groups in the network?
- How is the target's network analysed during the acquisition?
- How important is the target's network in the acquisition deal?
    a. Are there certain actors in it that are considered to be especially important?
- What factors affect the selecting of the target company?
    a. Is there a factor that can be considered more important than others?
- How is the targets position in the market assessed?
- What kind of an effect does the targets position in the market have on the acquisition decision?
- How is the integration plan prepared?
    a. At which point is it prepared?
    b. How is it made sure that the implementation works out like planned?

Set 2. How is the significance of the target company's customers assessed?

- In which situations can the target company's customers be the motive for acquisition?
    a. Can a company be bought simply to gain access to its customers?
- What kind of an effect do the target company's customers have on the final acquisition decision?
    a. What kind of an effect does the acquisition have on existing customer relationships?
- How are the customers and other interest groups informed about the acquisition?
    a. Who is responsible for the informing (acquirer/acquired)?
    b. At what stage are they informed, before or after the press release?
    c. How are the customers and other interest groups reassured that the business will continue as usual?

    i. How should it be done in your opinion? (in the theory communication plays a big part)
    ii. Do you have an example of good communication?
- How much are the account managers involved in the acquisition (before and after the acquisition)?
  - a. How important are the acquired company's account managers?
- What expectations are posed upon the customers of the acquired company?
  - a. What are the expected benefits?

Set 3. How are the acquired customers managed after the acquisition?

- What needs to be integrated first to ensure that the business will continue as usual?
- How are the facts found in the pre-acquisition and due diligence phases taken in to account in the integration phase?
- How are the acquired company's customers taken in to account in the integration phase?
  - a. What are the important procedures to integrate in the customer perspective?
  - b. What is the schedule in which these should be integrated?
- How is it ensured that together the companies produce more value to the customers?
- How are the goals pursued in the acquisition achieved?
- What is, in your opinion, the most critical in the customer relationship management of acquired company's customers?
- How the acquired company's customers are managed compared to your existing customers?
  - a. Who is responsible for the customer relationship management?
  - b. Is the customer relationship management system integrated or is the acquired company left to manage its customers as they have been in the past?
  - c. Are the acquired company's account managers kept?
- What kind of problems or challenges have there been in doing this?
  - a. Problems in the compatibility of the relationship management systems?
  - b. Do customer relationships tend to end or are they ended?
  - c. In which situations can it be determined that the acquired customers are not profitable to keep?
- How is the customer's trust in the company upheld during the acquisition process?
  - a. How is the customer's possible opportunistic behavior handled?
- What kind of challenges do you perceive there to be in international customer relationship management?
- What kind of differences in customer relationship management have you noticed between countries?
  - a. How are these taken in to account in the due diligence phase?
  - b. How are the differences taken in to account?