M&A: Leading Human Capital from a Strategic Management Perspective

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Abstract

The following is the presentation of our master thesis study which intended to studied from a Human Resources perspective the M&A process. “What defines the integration achievement in a M&A process from a organizational level perspective?” This represents the main issue to answer and discuss about. It was conducted by the analysis of New Wave Group and Orrefors Kosta Boda acquisition process as the case study, representing the reality field and source of practical implications. To answer this research question, it was selected some of the most important elements of the Human Resources Strategies like Leadership and communication, motivation and commitment. Moreover, two main stages made up the attention of our study; the pre stage negotiation, and the post acquisition phase. The principal outcome constitutes the analysis in practical and theoretical terms, of the special condition of acquisitions with one dominant part constituting the “big saviour” and how this change is traduced into the integration process.
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Chapter 1: The overall view of shapes and challenges of M&A

1.1. Introduction

M&A has certainly become the mechanism for companies to respond to the demands of the business world. It has been since several years, a main topic for strategic literature, since its advantages in its right use can be estimated in high levels of competitive advantages for companies. Today is well known the benefits gained by proceeding with M&A; strategic position to enter in new markets, improvement on technology and know-how, increasing value for shareholders, expansion in market shares, moving into uncovered product areas, biding the competence by hostile takes over, among others.

The companies, that are facing changes in their organizational structures through a M&A present important modifications in the processes, politics, values and frame of references. Each participant of this processes either the acquiring or the acquired; have to face different process and challenges. Clearly, both companies get affected part of their identity and way of doing things. A M&A process is regarded to be an integral organizational change, but due to the experience of most companies facing this problem, the human component often appears to be the determinant element to succeed or fail. People are susceptible to fear modification in their environment; therefore these have to be implemented following a clear and structured plan in order to diminish possible resistance.

The challenges of this adaptation are more evident when the difference of core business between the both companies is more obvious. Therefore, the kind of industry is a fundamental element to understand the transition. First of all, some fields are more appropriate to realize an M&A. for instance, industries, where the economy of scale is very relevant, will be easer understood in term of economy. Moreover, if the companies are complementary in their own business, synergies are most likely to be reached in terms of marketing, finances and organizational goals which make it a “natural” growing process.

Through the last century, companies paid more attention to the three following mindsets: strategy, economics and finance. Nevertheless, these last years, we have seen the emergence of a fourth mindset, as human factors to achieve a perfect integration of both companies. To manage a M&A process efficiently in the best conditions is very far to be easy. If some barriers are perfectly
identifiable (human costs of scale, weak innovation and so forth), there are others more niggling to identify and measure like the invisible structure of mindsets for instance. For all of these reasons, an important and deep study has to make before the bargaining of M&A.

In order to obtain a better insight of the situation above described, this thesis project addresses its focus on studying the transition process in a M&A developed by two companies that belong to different business New Wave Group and Kosta Boda and therefore, have different ways of working and behaving. Some factors will structure the analysis of this investigation such as corporate strategy as the frame which will address the actions and intentions of the M&A process, the management style that will be used to deliver this strategy content, and some of the more intangible but certainly highly influencing factors as the companies mindset like the value, identity, motivation and commitment. Even more, not only the soft issues are claiming to be essential into the deal, but a Post evaluation or audit represent a strategic phase where all the intended conditions to be established can be maintained.

1.2. Problem analysis

The M&A is an ongoing process. That means that the operation run from the moment the company is interested by another one until and after the achievement of the M&A. For instance, a number of M&A succeed in the long run, often after a long period of time has elapsed or else following the outbreak of a crisis situation (GM, Peugeot-Citroën).\(^1\) This illustrates that M&A process is always running, even before the bargaining of transactions independently of the need or circumstances that surround the process. After the accomplishment of M&A, in this context of human resources, managers have to manage the new environment carefully. “Moreover, after companies reach a significant size and level of maturity with the M&A, they need to consider acquisitions if they want to continue to deliver shareholder value”.\(^2\) Another interesting topic to focus is the strategy identification of the companies in the case of M&A. Certainly, the strategy of each player influences hardly the consequences of the process. Since operations and logistic efforts to deliver a new sense of business and aims, comes from the new merged entity.

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Going further, the M&A process has to launch and develop what is call the companies integration. This is highly oriented toward the management of people and the strategies developed to incorporate them into the new vision and philosophy that the company will create with the merger. This stage of the process represents the problem that will be analysed, described, and explained in this study. Integration and its success depends on many factors like corporate culture compatibility, Corporate size and dimensions, Management style, ability to communicate effectively and like that, create the appropriate environment in where the new human talent will be introduced together with their value.

Being said the initial and basics assumptions of this investigation, the central attention consists in a study of the particular case of New Wave Group acquiring Kosta Boda and being able to explain and analyze how look like some of the most important dimensions discussed by M&A literature referent to Human Resources. A M&A process presents many stages and levels, but for the purposes of this investigation, the integration planning will frame the analysis. This is stage have been considered to have the most impact to reach success or failure in the process. Moreover is here, where all the conditions to settle the appropriate atmosphere are created in order to produce and launch the employee satisfaction.

Clearly, acquirer and acquired are the dominant actors in this “game” but, we can find others actors who play a more or less important role in this process of alliance. One of the most influent actors is, the role played by some governments. According to the laws, companies have to follow the rules enacted by governments for the wellness of citizen. In terms of M&A, we are thinking naturally to the regulation against monopoly that avoids a situation where a company would have a too strong position on the market. Therefore, companies have to be agree about common rules to be used to stay in the legality.

For instance, one chamber of the European Union studies the potential case of monopoly to be sure that there are no unfair practices. Besides this element of protection against monopoly, governments can influence the process of acquisition if they don’t believe that it will be good for the economy of the country. Recently, the takeover attempt by the group Mittal on Arcelor was declared hostile by several governments. This has been mentioned in order to emphasise the importance of the corporate dimensions and size, that not only affects the form in which internally

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3 Michel Glais, “Concentration Regulation”, MBA class discussion, September 27 2005, University of Kalmar.
will be addressed the transition, but externally about all the conditions and elements that has to be taken in account.

1.3. Aim of the Thesis

M&A is a strategic choice widely and thoroughly researched in the latest two decades. Many approaches have been developed in order to explain its main features, process and transactions. Among these approaches scholars have created models and theories that analyze the process since different stand points, economically and financially, strategically and organizationally and also from a managerial point of view where we can find the importance and participation of the human capital issues. Researchers agree the critical importance of managing the human perspectives of the process in order to accomplish the M&A goals and to achieve the needed integration. That is why we have decided to focus our study in analyzing the literature and the aim is to select the principal elements characterizing the human resources responsibility, viewed as the human resources strategies that a company in a transition process has to develop in order to control and address the process. Since the principal characteristic of companies involved in M&A processes is the organizational change, a specific field has been select into the Corporative Human Resources strategies which is related with keeping employee satisfaction and moreover, the commitment to the company actions throughout the transition. An overall analysis of the principal elements that a company can use to strengthen and build commitment and integration is what we intend to build and describe. Some of the elements identified as basic and fundamental to achieve the support and commitment of employees into the M&A of the companies are company identity as an important strength, leadership, Motivational strategies and Communication. Likewise, an empirical study will be addressed using as a case study the two Swedish companies New Wave Group and Kosta Boda.

Since the business reality is just the result of all its participants and their actions, we will use theories and concepts to base our aim and find the specific features that these fields of studies have taken in the real life of these companies. We have collected and analyzed information from the cases concerning the choices that managers have taken in order to assume the deal. In other words, the aim of this paper is to find out how each responsible of the M&A transitions are setting the stage for integration in accordance with the dimensions and categories that we have selected. Moreover, this paper give emphasis to the stages after signing the deal, since is here where the
company has to launch and implement its corporate human resources strategies and tactics in order to build and keep the integration. Likewise a review of the principal means to maintain and keep control of these aspects has been intended to be studied.

1.4. Description of the problem formulation in theory and practice

M&A have been an increasing strategy around the world in the latest decades as a form of development national and international levels. In Sweden it has not been less important, in fact “Mergers and acquisitions have been among the most important elements of Swedish business restructuring in recent decades. During the 1960s and 1970s, the dominant trend was large companies buying up small Swedish companies”. Therefore, due to the tremendous importance that M&A is getting and because of its difficulties to warrant and deliver value added and success, is important to go beyond its process and study what are the most important elements that will address its possibilities for success or failure.

Research and experts have concluded that the human factors in M&A have represented the major determinant in failure processes; this is because Human resources are considered to be not a material and exact element that the company own and fully control. “Interviews of over 100 senior executives involved in these 700 deals over a two-year period revealed that the overwhelming cause for failure “is the people and the cultural differences” Moreover, the conditions and status of the employees is always changing accordingly perceived situations and new processes inside and outside the company. These conditions and its susceptibility have to be prioritized by the company and the integration team project. “The most important thing that you will always have to remember with acquisitions is that the most important side is the personal side... That’s part of the measurement of a success. Not just the products that are developed by the initial engineers and how much revenue they have developed, but it is the team and what have done in contributing to Cisco.” Likewise, most of the studies of this nature have addressed their investigation in generalize or even simplify the wide and extent group of variables and elements that influences human behaviour. This is why a grounded theory approach represents a good opportunity to study the particular context of a case study and like that, new insights and contribution can be gained to this field.

Theoretically speaking, the study will rely in a foundation of concepts and statements that will give it the allocation into the management discipline. Likewise, most literature review analyse different aspects of how is affected the human capital, what are the main areas susceptible of suffering damage or disadvantages, the elements that are more difficult to identify and therefore to control, the structure of the transition process that has to be settle in accordance with the type or constitution of the human force of the companies etc. Most theorists have agreed that the principal elements for a “Merger success is based on acceleration, concentration and creating a critical mass for operational change (adaptation)”. If these elements have been identified as “standards” for a successful process in M&A, how managers cope with defining them in the language of their own process? Moreover, how likely is the presence of these elements in a M&A process circumscribed into the frame of reference of the New Wave Group and Kosta Boda?

Hence, at the moment of studying the different elements that will guide the integration process of a M&A, its easily recognizable the need of balance between the financial and economy profitability and the people and its “management”. This two elements that in a certain way give the impression of being sometimes mutually exclusive, have to be smartly addressed by the company, this is what the challenge is about. What basically motivates a person is to feel that he/ she is part of a winning organization. That means granting the company of full sense and purpose is to grant people with their own purposes. Nevertheless, in a general way is the opportunity to build identification and membership feelings that will lead to the creation of the commitment. Without financial and economical success is not possible to reach the “Human success management” and vice versa. Different kind of employees are involved in the planning of the new entity, those that belongs to the administrative side, the IT and technical side, operators, creative and finally each group of people will demand different ways in which things and situations have to be presented to them in such a way that they are able to find attractive and motivational elements to commit themselves to.

Looking into the practice many companies are facing different issues. As it has been said before, for the purposes of this investigation and in order to build the grounded theory, it has been selected two companies that will represent a specific set of conditions and environment in which their transitional process is taking place. These companies are The New Wave Group as the acquirer and the Kosta Boda as the acquired. This study will regard the both perspectives, since is an equal and mutual transaction. The acquisition announcement of more than 51% of Kosta Boda

shares was made in June 2005. New Wave had the intention of acquiring the total shares of it and like that, proceeds with a total acquisition of the company. Basically New Wave Group is building it self as a brand corporation that works with continuous acquisition as a strategy to grow and legitimate its position in the retailing and commercial business “New Wave Group is a growing company that designs, acquires and develops quality articles for the profiting market (business market) and the consumers’ market, mainly in the clothing, accessories and gifts areas”. Its principal market have been built around the design and production of t-shirts and some other wear clothing, also products called “take away” (gifts) where the products and Kosta Boda brand would fit in its business. These products are sold in more than 15 countries representing more that 55% of its sells. At the same time Kosta Boda is a firm constituted by Boda and Åford working together under the Kosta Boda brand. The design in glass business is essential and it creates utilitarian and art glass crafting. Therefore its main human talent is represented by a very special kind of employees or creators, the designers. This company is of small dimensions and its main staff on designer is compounded by 10 of them. Likewise, is relevant to say that Kosta Boda is a company oriented towards the design and production which mould the special characteristics of its business and the way of working incorporating the acknowledgement of its corporate culture in which its members identify themselves as pure creators and artist.

Therefore at the moment of transferring theoretical implication of the M&A process, how is likely to be between two companies that even when belongs to the same social culture, belongs to different kind of business and styles? The questions are oriented to understand an acquisition process in terms of the way New Wave Groups have to deal with the complete acquisition of the Kosta Boda brand and its products in such a way that the value and conditions of its member don’t decrease. Moreover, the study is intended to observe, explain and develop which have been the needed actions under the companies’ managers judgment to create integration and identification through commitment of the acquired employees.

1.5. The significance of the problem

The importance of the study is represented by the critical value and influence of people adaptation to the new company’s condition. The M&A process can provide excellent and calculated advantages in terms of corporation, financial and network strategies, but if the human

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aspect is not addressed with enough attention, the overall process is likely to be a failure. “Contemporary research confirms the delicate balance that has to be hold between financial and human attention. Worldwide, two-thirds of mergers end in failure - some because of staff hostility and others because of insufficient preparation and inability to integrate personnel and systems. Even more failures are due to irreconcilable differences in corporate cultures and management”.  

We have mentioned before the particular complexity of the corporate culture as an element that influences the adaptation of people to the new conditions. This evident power is necessary to be addressed in the M&A process, not only for the people that already belong to the acquirer company but also to the people that is going to be part of it. The diversity of persons that integrate a corporation or that will integrate it, represent a wide range of elements that are influencing their behaviours, and the match between what is important for them and what the organization is expecting from them in terms of behaviour and synergy, is a subject highly worthy of analysis. What reflex a special and relevant feature of this topic is the relevance of the existent of Human Resources strategies as a fundamental part of the M&A strategy not in its form, but in its content and aims.

Even though, there are plenty of theoretical books about this topic and “despite the significant work done in the area of organizational culture in prior years, it seemed to remain removed from the core of business activity”13, this is a matter as much as other in business research, that is in constant development and evolution besides, given its singularities each case of study provides significant and particular insights and contributions that will expand and enhance the overview of this matter.

Given that the management of human resources issues is a variable and trendy field, is acknowledged that managers come across into a self-learning process; the daily contact with their company, their people and their corporate aim, gives them significant and very unique views about how to act and decide. Therefore even when standards theories that explain and cover this area exist, it’s the real practices and conditions that lead the making decision process and attitude toward strategic movements. Consequently it becomes necessary to consult the position and opinions of managers that are going through this delicate matter. Furthermore, each company is unique and, requiring particular and customized adaptations producing as a result a unique M&A experience.

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1.6. **The research question**

Given the purposes and intentions of this study, its guiding research question is presented as follows:

“Aiming to the essential strategic elements of Human Resources management, what defines the integration achievement in a M & A process from an organizational level perspective?”

This research question compounds the overall intention of this study, where we intend to state which are the most important elements of human resources that have to be taken in account at the moment of raising actions to achieve integration in the M&A process. Moreover, it will be viewed from an organizational level perspective, since a M&A is a modification that intervenes in the company as a whole.

1.7. **Aim of the thesis project**

Undertaking a subject is always a dilemma, there are many issues that offer important insights, but its selection always depends on the researcher interests. In this case, Human Resources issues that determine the degree of integration that a company can reach will be considered in the light of management and leadership of transitional processes.

In a managerial approach it has been identified the need of constructing a basis of concepts that will support the integration and transition process knowledge, applied to our case study of New Wave Group and Kosta Boda. Moreover, once this is established as the aim and at the same time the pivotal of our approach, complementary factors and means have to be described and explained in order to create a clear and organized idea of the process required to reach this conditions. We have identified the top manager’s commitment as the root and start point to transfer it to the whole organization including the new members, the ideology of the process, the appropriate means and ways of communication of it, the procedures of a gradual and smooth integration following the main organizational objectives of the Acquirer.

Moreover the need of facing the problem as a project thesis will provide the opportunity to operate and perform in such a way that the organization will be seen as a source of several issues that will constitute the opportunity to observe, investigate, interact, diagnose and raise in some way, guidelines or explanations concerning the objectives of this study. That is why the problem
can oriented through the perspective of project problem, due to the methodological and systematically tools that its development provides in order to undertake and focus in a problem either to solve it or at least, to gain more insights that will serve as an improvement in the knowledge of the managerial world and the researchers in particular.

1.8. Objectives of the thesis

1. Describe the M&A process concerning the human resources soft issues in the transition process.
2. Define the principal actions and trends used by the managers in the case company to explain the M&A development.
3. Interpret and present the summary of the principal elements of the M&A procedures.

For the first objective, cultural, communicational and strategic paradigms will be investigated in order to present and describe the conditions in which the managers have been experiencing the transition process.

Concerning the second objective, the aim is to analyze and give a definition about the actions launched by the responsible people inside the company in order to develop the M&A process.

Following with the third objective and to fulfil the need of consolidating the outcome of this investigation, an overall interpretation of the experiences and phenomenon studied and observed in the case companies is presented in order to compile the major findings and insight of the study.

1.9. Limitations of the study

Acknowledging our condition of research master students, some important limitations were present during the development of this study. Primarily, we can mention the time as a determinant condition for the extension and deepness that the investigation presents. Having a limited period of time, conditioned how many elements to choose concerning the human resources strategies, and also the empiric research developed through the case study, this in order to focus and give a satisfactory insight of each one. Even when a case study method often represents the choice by
excellence to obtain rich primary data, not always is completely controllable some of the elements that compound it. Strategic persons required to be interviewed are not always available, and the secondary choices about the people available not always represent the best and most objective perspective of the company reality. Nevertheless, interview questions were raised in order that the interviewed were completely capable of answering about the diversity of issues questioned.

1.10. Methodology

1.10.1. Methodological Structure and Approach

Methodology is the filter and structure that directs and orientates the way a reality phenomenon is studied. This is an essential element to make a valid interpretation of any reality since it allows envisioning it, in accordance to appropriate tools and methods that relate effectively, theories and realities in order to arrange a new order of ideas. Methodology framed into the Qualitative research, can be envisioned as the way researchers use inductive thinking in order to give the real phenomenon, universal features that allows its applicability.

In the development of this study a grounded theory approach is appropriate to address and lead the steps by which the analysis and aim of this paper is pointing at. Primarily, a review and analysis of the M&A literature is what constitutes the data sources to develop the study. Being M&A a mere reality issue and field, grounded theory is likely to provide the necessary methods and means to realize and study where the principal factors that participate in the Human Resources strategy facing the transition process, are being studied. To clarify more its convenience as methodological frame, M&A cannot be studied as deductive conclusions from a priori group of assumptions. Nevertheless, it presents more or less standards component, the essential is how managers find out the way by which actions and statements are established in each single and unique case. Since M&A is an area widely studied, it can be said that most of its aspects has been at least envisioned.

However, each case is different with particularities of the context and condition surrounding them. The approach of each organizational strategies or tactics over the human capital in order to cope with integration and enforce commitment, its very different from company to company, that is why as well, a case study fits very conveniently to the purposes of this
investigation. Qualitative research is defined to be “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification”.

Therefore, the justification of applying qualitative research through the scientific method of grounded theory is represented by the need to delineate an outcome through the use of qualitative data sources, secondary data as from interviews, organizational documents and facts as, annual reports and press release, scientific business articles, among others, and to produce from them, qualitative analysis and conclusions. Nevertheless, using grounded theory to build an interpretation and exploration of the reality doesn’t mean to elaborate a mere case study investigation, since theories and concepts are being used in order to generalize and universalize the assumptions and conclusion intended to be drawn through this study.

1.10.2. Case study research

Basically regarding the need of addressing an investigation where a fresh look can be gained in relation with a specific phenomenon studied, we have choose the method of case study as we said before, for its conveniences and the way it matches with the nature of our subject. Case study research can be conducted with different purposes, the way it can be used offer a variety of alternatives according with the intentions of the researcher. In our case, we decided to take a descriptive and at the same time with exploratory view allowing the reality of the case, complement our theoretical framework and like that understand the implications and adjustment that theoretical concepts adopt in the specific conditions of the case study context. Moreover, case study research allows focusing on contemporary events which offer the opportunity to dig into the current trends and actions developed into the frame of our research field, creating a very convenient and rich source of learning and knowledge acquisition.

As Yin exposes “the case study is used in many situations to contribute to our knowledge of individual, group, organizational, social, political and related phenomena... the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events such as organizational and managerial processes”. In other words in a study where the majors interests consist in observing and understanding how is developed certain processes in real life.

14 Anselm Strauss and Juliet Corbin « Basics of qualitative research: Grounded theory procedures and techniques » (Sage Publications. 1990) p.17.
situation compared with theoretical statements, case study is likely to be the one of most beneficial methods.

1.10.3. Application of the Case Study method

As it is known, Qualitative research compounds a wide range of alternatives concerning methods and tools to be used in order to gather information and data. In the light of our study we found most convenient the use of Case Study, even though many discussions have been raised around the validity and right use of it. However, we intend to present a brief exposure of the principal issues in order to clarify our motifs and understanding of our choice. Most researchers and writers have discussed the most common misunderstandings in the use of case study; in fact it is very often misleading to see the case study as a pilot method to be used only in preparing the real study’s larger surveys, systematic hypotheses testing, and theory building. In social and economical studies is not possible to think about the construction of predictable theories that will remain as dogmas about the dynamic reality; in each research the interaction and dynamism of the different elements in the field of study, present different results and characteristics, therefore the importance of taking a closer look into their interrelation in order to build a fresh and new order of ideas.

Applying a case study represent a series of elements that have to be taken into account at the moment of consolidating its advantages as a method. When developing the case study we need to consider finding the appropriate persons that will provide information and data. This is just part of what is called the research design, where logistical actions have to be developed. The collection of data represents in our case study the centre or core of it. For us, interviews is what comprises our “source of evidence” focusing directly in the topic in order to describe, understand, and explain some of the causal situations in the managerial choices and actions of our cases study.

1.10.4. Methodological Design

In order to elaborate and structure the path we have to follow to fulfil the answering of our research question, we have drawn a methodological plan, which is considered appropriate to address our question, that is within our capacities and interests, and that result practical and

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realizable. Due that Methodology is “the strategy, plan of action, process or design lying behind the choices if methods to desirable actions” is necessary to plan the entire elements within this process. Since there is not fixed methodology research plan, we have created an illustration of the model to be used to develop this study:

**Figure 1: Methodological Research Plan. Own source.**

### 1.10.5. Data Collection Methods

According to our given research problem that compounds this investigation, the basic and principal source of empirical information comes from the use of our case study, therefore a selection and study of the different research methods has been done, allowing the drawing and orientation of our research actions. As we have said before, the inductive thinking is what comprises the out come of this thesis; therefore the convenience of digging into particular circumstances of our cases study has been developed. The data used to draft analysis and conclusion comes from interview application which represents our principal data collection method, of some of the most strategic members of the case study. Considering the availability of the time and means destined to realize these interviews, two main interviews were done to fulfil this requirement. Firstly, Eva-Marie Hagström Manager Press & PR from Orrefords Kosta Boda, was contacted to hold a direct interview in which the main elements of this thesis are pointing at. Besides Mr. Urban Enquist, Manager of the Human Relations department who provided information about the Human issues in the transition process, also Matthias General Manager in

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New Wave Group. To arrange the interviews, it was pre contacted the company in order to reach the proper people that would serves as the spokesperson, of the companies. We held guided conversations rather than structured inquiries to follow our interviews. The interview questionnaire guide can be seen in the annexes 5.

1.10.6. Presentation of the data

Since our research is allocated in the field of qualitative, the data was obtained from secondary sources in the form of articles, journal, news, theories and discussions about the topic as well as from interviews which represents merely, a compilation of the opinions, experiences and the recalling of situations and stone miles from our interviewed, according to the set of questions and check lists used as our main research tools. Once the necessary data was collected from our empirical sources, the following step was to review it, check its comprehensiveness, and proceed with its organization. Its presentation was made according to the initial structure about the issues that it intended to covers also, it was used a narrative style to present the data collected in a form of events, circumstances and situation that compound the data report.

The result is what comprises the systematized data to follow up with the analysis plan. In order to grant our presented data with validity and reliability, it has been used the opinion of experts, represented by our supervisor thesis, in order to warranty the validity and appropriateness of our questions and data collected. It was made by the presentation of periodical thesis reports that allow us to correct and visualize our advance.

1.10.7. Data Analysis

In order to develop an organized and systematized analysis of the data gathered from the Interviews, we have developed its evaluation using as reference the concepts and main categories that have been presented in the theoretical framework in order to sort out the information obtained. Theoretical aspects have been allocated in relation with the category they intend to study. Therefore a consecutive presentation of each inquired aspect and its concerning answer, follows the same structure as presented in the theory. A mere qualitative observation is the way by which we orientate our thinking, going behind that data that might reflex back elements that represent interesting inputs regarding the investigation.
Chapter 2: Theoretical framework.

2.1. Mergers and Acquisitions "Raison d'être"

M&A has represented lately the opportunity for the presence of more and more giants in different markets and industries. Managers are aware of the doubtless benefits from M&A; turning down competitors, taking them over and enforcing strengths for competition and position. These markets are more than ever a clear result of its player movements. New needs are identified, new products are being created, and for that M&A fits perfectly in seeking the required technical and human expertise. However, difficulties and obstacles to be able to compete can be identified as being more unpredictable and tricky. Thinking that just financial audits and evaluations are the fundamental tools to predict the success of a M&A is a common and fatal mistake.

Primarily, what motivates companies to negotiate partnerships with others is their intension of business. That includes, theirs visions of the markets, their goals, and the opportunities observed in merging together with the potential organization they have envisioned. To illustrate this statement it can be observed the example of ABS Group which in the third quarter of 2005, decided to acquire Sparrow Water, a service company operating in the south west region of the UK, this action responds to ABS Group strategy to create sustainable customer relations and will help ABS to grow its service activities in the UK. Likewise, operational and corporate strategies oriented to the service and markets are what lead the decision to realize the acquisition. The consequent integration process is conformed not only by the unification of systems and organizational structures but synergies and the matching of corporate cultures is what has to be managed carefully in order not only to access the market envisioned by ABS Group but, to be able to deliver the added value and quality required.

The initial intention of the company is followed by different steps or elements that imply a set of actions that have to be done in order to consolidate the merger process and proceed with a definitive decision. Most of the time, this previous idea or intention has at its foundation, an operational motor that will lead the action as it has been explained before. “It’s in the operational that an organization’s visionaries see opportunities to strike gold as they keep a watchful eye out for suitable partners. It’s also the place to which stakeholders will apply their magnifying glasses

once the deal is done, looking in minute detail for anything that indicates the state of health of the deal”. These kinds of options are what commonly occupy managers minds when figuring out how to invest money in M&A choices. This group of conceptions and motivations about deal making has been allocated by most authors in a prior stage of the M&A decision making, which is characterized to be very particular and not standard, due to the characteristics and style of each company and industry involved. Anyway researchers have created a fairly predictable process in which the company go through in a M&A process. According to Daniel Teresa there is a group of more or less standard stages which a M&A involves:

- Identifying target or candidate companies,
- Narrowing the field of choices,
- Selecting first-choice companies,
- Reviewing regulatory compliance,
- Conducting preliminary discussions,
- Signing a letter of intent,
- Conducting due diligence,
- Completing the financial negotiations,
- Signing the definitive agreement,
- Announcing the deal,
- Closing the transaction, and
- Integration of the companies.

It can be noticed that the pre stages before closing the deal, is represented by all the actions from “identifying target or candidate companies” until “signing the definitive agreement” after that, if the evaluations and studies reflect beneficial and profitable figures, the company can go further and realize the merger or acquisition. These are the investigation aspects of the deal, where the company is able to measure its possibilities to realize it, its economical resources to be invested, the return of capital that the investment will provide, the assets’ value of the company to be acquired, and the cultural aspects that will consolidate the integration. Regarding to this, we can identify the planning and evaluation of traditional elements, and non traditional ones. The experience and the evolution of the M&A strategies has made aware the managers about the need

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of observing the possibilities to create integration and synergy between the two companies and its appropriate degree of dependency once the deal has been signed, which can be considered as non traditional elements that are being attended more and more.

In order to fulfil the required investigative actions to recognize if the deal is beneficial or not, some activities and procedures have to be done. Generally, some of these can be:

### 2.1.1. Due Diligences

Most authors in M&A literature agree and coincide in pointing at this stage of the process a fundamental and even a classical one, since it allows the companies to give a deep look into some of the most essential elements that have to be taken in account to estimate the possibilities for success. According to Ed Paul\(^2\), some of the general aspects that a due diligence has to include presented as a checklist are:

- **General Background**: from both companies, including the buyer intended objectives with acquisition.

- **Areas of investigation:**
  - **Legal aspects**: High impact items, Corporate structure, Bylaws, Charter, Ownership, Board Directors, Pending Litigations, Intellectual Property Ownership, Regulatory Issues, Accounting and Finance, verification of financial statements, internal policies and procedures, automation, auditing statements, publicly traded stock performance, banking and investor relations, financial structures, in-depth ratio analysis, tax situation.
  - **Research and Development**: High impact items, Internally developed Technology, purchased technology, unique design strategies and techniques, adherence to standards, patent review, key engineering developments and personnel, verification of product performance to specifications, design verification procedures, new technologies under development, research alliances.
  - **Marketing and Sales**: High impact items, customer base analysis, distribution channel analysis, product definition process, pricing and demand analysis, market analysis, advertising and promotion, regulatory issues, segmentation analysis, positioning, future strategies, historical trends by product and region, personnel review.

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- Production: High impact items, manufacturing locations, yields and performance, proprietary processes, cost breakdown by product, union issues, environmental impact issues, material planning, purchasing, and automation levels.

- Human Resources: High impact items, policies, retirement plans, benefit package, stock options, employee contracts, employee turnover rate, pending personnel related litigation, sources of employees, overall cultural assessment.

- Internet Usage: External usage, technology in use, future strategy.

- Management: High impact items, management style, history of executive managers, promotion strategy, corporate culture requirements, overall use of technology, reporting and evaluation procedures, employee development policies.

As it can be observed most of these elements constitutes the traditional areas of research that an investigation before signing the deal have to be done. Going further and acknowledging the core of this thesis, it can be said that issues related with culture evaluation and assessment, are stated as a singular element ignoring the wide range of sub elements that it contains inside. Even when is included as one of the aspects of Human Resources areas, a more thoroughly description of what has to be investigated is necessary. The human factors of the investigation are determined by the company conception about its human resources, the importance given to it, and the time and effort devoted to its support. So it can be very interesting to observe how each case, each company manage and deal with the human perspectives of the deal vs. the corporate and operative one.

2.1.2. Type of mergers

Another important way to understand the essence of reason to be for M&A, is by observing some of the ways it can be developed. The classification will provide the overview about the form that the M&A process will take. The classification of the kind of mergers and acquisitions procedures can be classified according to different perspectives. According to Weston J., there are three stand points in which a M&A can be viewed:

- **Economic standpoint:**
  - Horizontal: Companies in similar business;
  - Vertical: Companies in different stages of production operations;
  - Conglomerate: Companies in unrelated businesses.
• **Legal Standpoint:** “The basic form of transaction is a statutory merger governed by the requirements of the state or states in which the major parties are chartered.”

In other words, each state or government which serves as the legal frame for the M&A will determine the form and requirement that the process has to fulfil.

In general, the development of certain industries and markets has reached a maturation or overcapacity that doesn’t contribute to consolidate mergers. However, “New accounting rules are providing fresh incentives to merge. Favourable tax and trade environments that facilitate cross-border trading within multinational corporations are adding to the advantages of global mergers. Finally, every company faces pressure to do what the competition is doing.”

Taking in account the big complexity in operations and efforts that the merged companies have to go through, is important to know that “Mergers get derailed, according to the Business Week study, when companies dither over integrating operations after the merger, frustrating customers and employees and delaying capturing potential benefits.”

It can be noticed that is not just about taking advantages of external opportunities but also, about finding the proper synergies that can be obtained with the suitable partner chosen, and more over about launching the required integration efforts to keep the advantages and success.

Another kind of classification of M&A can be mentioned to understand its reasons and essence. This classification is from the buyer perspective and in relation with their motivations to make deals. According to Ed Paulson and Court Huber, some of the kind of buyer that proceeds with a M&A process are:

- **Financial Buyer:** Buyer that is primarily interested in the target company as a financial investment. May purchase the company to split it into smaller units or to bundle with other owned companies for resale.

- **Bottom Fisher:** Buyer that looks for highly undervalued companies so that the target can be purchased at a reduced price, which translate into reduced risks. Companies that grow too

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25 Ibid., p. 9.
quickly and develop financial problems are excellent bottom fisher acquisition target companies.

- **Strategic Buyer**: One looking for an important technology, marketing or other benefit that the buyer does not yet have. By adding, through purchase, this capability, the buyer hopes to acquire synergies that make the new combined company stronger and more valuable than the individual part.

- **Product line or market share expansion buyer**: One interested in purchasing a company that provides a product line or market presence that expands the buyer’s. Buying the presence is often cheaper and faster than developing it from scratch.

- **Tire Kicker**: One that looks around for acquisition deals, takes up the seller’s time, and then never makes purchase.

- **Employee stock ownership**: Related to the financial buyer except that the buyer might be the current company management or employee themselves. This is sometimes called “taking a company private”.

Once a company is defined whether for its kind of merger or by its intentions, the following process is to develop its own checklist about what to investigate and measure for, in order to visualize the advantages that the process will provide.

### 2.2. General Model of a Successful M&A process

Merger and acquisition implementation is an art and not a science. Besides, the human aspects are a dominant factor, which is why it is impossible to write a perfect following method to reach the success. Each situation is unique and presents its own potential problems and potential solutions. Nevertheless, it is possible to enunciate some rules, as a guideline that managers can apply to implement the issues for success. To be the most clear as possible, it is important to describe the process by phases. First of all, it is important to define the criteria used to define the success. According to Stan Lees, it exist several tools to measure an acquisition performance; financial, economic, strategic, executive and regulatory measures. The selection of the success factor will depend essentially on the strategy of the acquirer company. Some companies want to focus their strategy on specific points like the market shares evolution and so on. Secondly, after to see the measure factors of success, according to the huge literature reviews about this subject,

we are going to try to build a model of a “good and rational” M&A process. The main purpose is to get a general overview about this topic and, with a good background, go behind this subject within a further analysis.

2.2.1. Developing the Acquisition Integration Framework (4 phases)

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<th>Preparation</th>
<th>Transition</th>
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<td>(1 year)</td>
<td>(2-3 years)</td>
<td>(After 3 years)</td>
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Figure 2: Source: Successful mergers, acquisitions and strategic alliances; how to bridge corporate cultures. 2002

It is possible to define an integration process by the culture bridging fundamental model. Following this project management approach, it will involve the right people to work in the right way and in the best conditions. This process is on-going every time during the M&A transition but also, before and after. As a foundation of understanding, we decided to go behind these four phases described in the literature. These four major phases represent the different steps to pass over the M&A.

**Preparation**

The reasons of launch a takeover on another company have to be justified. It is during this preparation phase that the main issues will be brought. The discussion of the new entity (created by the M&A between two companies) has to be discussed at this level to be able to manage the transition as the best as possible. Obviously, that means that a deep analysis should be done about the new potential “acquired” company. Unfortunately, in the real world, there is a lack of clarity during this phase of the integration process regarding to what it is possible to deal or not with the acquired company.

Anyway, some stages are compulsory, and sometime obvious, to follow in a chronological order. The strategic vision of the final objective should be clear and “leadership from both companies must carefully analyze the strategic vision, how each company fits into that vision and their compatibility in terms of culture, systems, and processes”.28 Following to this idea, the good identification of a candidate/target company is primordial to continue well the process. To be sure to do the good choice, it is common for an acquirer company to make a set of audits called due

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diligence. The due diligence is the second step to analyse deeply another company. Essentially, this analyse covers a lot of different perspectives. This is what reflex the essence of the M&A process to be done. An incomplete due diligence can have a lot of harmful consequences. The problem of Halliburton demonstrated perfectly the bad issues possible. Halliburton became embroiled in asbestos claims against Dresser, a company with which it merged in 1997. Obviously, the acquired company ignored completely this problem before the merger. A lack of exigencies in the due diligence process is the origin of the Halliburton. The friendship between the two company leaders is cited as a possible reason for this laxity. Halliburton lost more than a half billion dollars in this story. Furthermore, It is important to emphasize that; unfortunately, if the concept of due diligence looks very simple in the theory, all the expert are agree to say that the integration process would be launched right after the “go” decision is made. Nevertheless, this is rarely possible in the real life. Especially when it is a takeover and not a “friendly” alliance! The third phase inside this preparation process is to get a glimpse of the next step: the transition.

The transition

During this phase, the new partners have to work together and orientate by themselves where they want to go. “The preparation during the period leading up to the merger announcement is vital to success since it is critical to present the merger to key constituencies with confidence.” During this period, the integration process is formulated and key decisions are made in the areas of leadership, rules establishing, communication and respect. Besides, the communication efforts must be coordinated to establish clarity in roles and responsibilities.” Several elements are common to each M&A during this transition phase:

- Leadership: It is imperative to say that the ability of each leader to understand is crucial for the M&A and starts in the beginning of the process. More than the usual characteristics of leaders, they have to show a quality of communicator and listener in order to satisfy the human capital needs. The communication is one of the main points to succeed in each step of the M&A process. We will have the occasion to come back to these elements later in this chapter.

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29 Ibid.
• Mutual understanding: This transition phase offers the possibility to understand and avoid cultural stereotypes. Moreover, it is possible to clarify the message and give the concrete objectives of the M&A. A straight communication is the key success like the commitment.

• Commitment: This concept will be explained deeply later but it is necessary that the basis of commitment start also as soon as possible into the transition stage. It allows to enhance the motivation of each player.

Integration

During this phase, leaders have to manage with all the complexities of the company environment. It is frequent that employees are scared in front of a new unknown future. It is time to build true commitment to new ways of doing things and let go of the past. The fears are natural and foreseeable. The part of the strategy includes an effort to create a sense of purpose about the work. A clear communication from the senior manager to the rest of the workers clarifies the position of the organization. Communication of the company vision is a huge signal of trust and confidence. Thanks to these shared ideas, a common value could be created. In order to achieve this objective, senior managers have to hear and understand employees to see what they need to evaluate in a nice environment. In this vision, share the integration goals and timetables for results can be interesting for companies. Nevertheless, managers have to be careful to don't make a interpretation mistake. Indeed, assuming that a lack of contest or opposition from the employees during the meeting (for instance) means that everyone works together. Behind the scene, a lot of things can happen and managers have to be aware about it.

Integration phase covers also other psychological aspects. It is for this reason that the selection of an integration manager or leader is a legitimate interrogation for the acquirer company. Find an appropriate manager to deal this process in necessary. Usually, a person who is senior, since legitimacy and experience would be preferred. A flexible social style is another essential quality of managers to reach the goals. An open-minded spirit is compulsory to handle the problem and share different values. A good example of good integration is the story of Michel bon, CEO of France Telecom: “When their management asked us what we were proposing we replied, ‘We’ve no intention of controlling your way of doing things. On the contrary, we want to learn from your experience and your

practices”. This example illustrates the concept of share values and creates a new value for the new entity. All of this will be combined to produce a positive effect on revenues, profits, customers and shareholder confidence.

**Consolidation**

Essentially, the companies have to consolidate their positions. They have to take the advantage of the stability after a lot of changes. After all, employees may see future opportunities in the new organization and take advantage of them. The consolidation can be used like a tool to change a fear into a chance. During this period, we see also the importance of the pre-stage and the purposes established before. Therefore, it is possible to see if we are in accordance with the pre-requirements. In that case, the communication is an asset to share the objective achieved or not. It will reinforce the implication of the employees inside the company.

Moreover, the new entity needs often new qualified employees and it is a time for the recruitment for the company. Nevertheless, some new talents can emerge from the former company.

The post merger acquisition survey is very useful. The last section of this chapter concerns this topic as the mean of control of the M&A process. After a M&A, it is important to see what happens in the company and if it is conform to the pre-established objectives fixed during the previous phases. One more time, a lot of different tools to collect the information and analyse it can be used by the analyse team. Good strategic planning is the key to understand if synergy values are created. A well-researched and realistic plan prepared will dramatically improve the chances of realizing synergy values.

### 2.3. Common pitfalls in M&A process

First of all, the dark side of the business is rarely mentioned. The truth is, many mergers fail. According to investment bankers, the failure rate of mergers is about 50%. The way is long and is sowed by pitfalls. An exhaustive analysis by business week and a leading management consulting firms, of hundreds of deals indicates that their performance has fallen far short of their

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36 Daniel, Teresa A., Management of People in Mergers & Acquisitions. (Quorum Books, 2001)
promise. According to Ken Wassik, a managing director, it exist three core reasons why mergers fail. The reasons are:

- Acquirer companies have gone outside their core competencies in acquiring a business beyond their skill set;
- Personal issues were not fully explored and a culture clash develops between buyer and seller;
- A strong strategic plan was not formulated.

These three failure causes can be realized with more or less intensity according to the different M&A stories. Besides, with these three different elements, Ken Wassik takes just in account the management issues. As will be shown, it exist more common pitfalls to avoid. Nevertheless, in the case of our research, the management style is important and let give us the opportunity to explore many options. Nonetheless, in a literature review, it is important to don’t ignore the entire components of the M&A failure. That is why it is essential to mention the major factors of the mergers failure. For instance, the amount of money involved in these deals, combined with the risk, might lead one to believe that M&A are done only according to strict business analysis or necessity. Obviously, the following is not an exhaustive list of the issues that may arise in the context of a M&A. But many others factors influence the efficiency of the merger or acquisition:

- Avoid liability prior to reaching an agreement between the parties: like it has been said earlier, the previous steps before the concrete integration are primordial for the further process. Both companies have to be honest and it is important to avoid the possibility to find a “skeleton in the closet” of both firms.
- Avoid a wrong accounting operation: The Accounting Principles Board (“APB”) provides two general methods of accounting based on the type of acquisition involved. The methods available are the “purchase” accounting method and the “pooling of interests” accounting method. The specificity of this field requires accounting professionals. Besides,

they should be consulted at the early stages of the acquisition process to avoid potential accounting problems.

- To keep a legal way in the business is imperative to reach the success and to avoid some problem with the regulation state. One more time, a help from specific attorney is necessary. The law in some kinds of business fields is so complicated that it is helpful to call some specialist to manage the transaction.

- Avoid misunderstandings regarding to management and governance: after the legal and economic issue, the management is also an important factor of success/failure. It is impossible to calculate all of the potential pitfalls and complexities that may arise in this area. Nevertheless, it is critical to address certain key issues as early as possible in the negotiations. Unfortunately, management issues are often some of the most sensitive to be resolved.

- In this optic, the value destruction has to be avoided by the buyer. It is possible to identify some sources of loss in mergers. Several common contributors to value destruction are examined. For instance, according to Hence, a guiding rule for merger is “investors think numbers; managers think processes”. If managers start to think about numbers and others financial issues, they can surround themselves and commit some mistakes. Another good example to avoid possible value destruction is to create a history, a past with the company. To build this integration, both companies have to share their knowledge and history to create a strong establishment.

Easy and simple operations don’t exist in our current business world. Like it has been said earlier, many mergers and acquisitions fail. This kind of samples shows us the difficulties to manage this deal. Nevertheless, mergers and acquisitions are often considered risky, but when they’re executed correctly, there’s no better way to grow a company.

2.4. Human Aspect in the M&A process

Each M&A process is unique and will be influenced by a wide range of elements that will provide its special features and characteristics. Companies that get involved in this process intend to capitalize resources to develop its services, products, and even information. They use different kind of assets like economical, technological, knowledge, valuable information about their markets,

43 Ibid., p. 70.
which are basically delivered and created by a foundational asset, the people. Likewise, this represents the most valuable and delicate resource that a company has to manage thoroughly in order to accomplish all the objectives and goal that the M&A process intend to lead. The importance of Human Resources Management and Strategies is an arena that has been growing since managers are getting aware of its difficulty to control, measure and plan. Moreover it’s the company’s people who will define in which way a company will perform and its possibilities to advance and grow successfully.

As it has been said before, a M&A process represents a special challenge in a Human resources perspective, managers have to be able to visualize the conditions of its people and the acquired company’s people to face the change that it represents. Most authors state that is not only about systematize the human assets in term of efficient incentive strategies, economical compensation and salaries, authors agree that people require to fulfil many other requirements in order to fit smoothly and harmoniously with the new situation that the companies are creating. Usually build these necessary conditions don’t represent a priority for some managers dealing with the process; it commonly depends on the real importance that the companies dedicate to its people, represented by the human value system created in the corporate cultures. Most of the time the kind of company and its business are conditions that influences this. Companies with business oriented to the production are viewed to see the human capital as something more homogeneous and “material” due to the nature of working to deliver a tangible product. In companies where the core of business are services or information, human talent is considered essential to the image and efficiency of the company, therefore its dedication and attention represents a bigger concern and even as a strategic area for them.

2.5. Impact of Human Resources Strategies over the Corporate Strategy in a M&A process

From a Managerial point of view, the relation between the strategic choice of the M&A process is highly connected with the company Human Resources Strategy that has built through its existence, mostly in a sense of choosing the right partner to be able create successful synergies. Moreover this is a highly relevant subject for the current global business scenario that companies are being part of because “no firm exists that is autarchic. All firms must necessarily interact with
other organizations (and individuals) in their environment and therefore they have interorganizational (or inter-firm) relationships”.

We have acknowledged that the initial process before carrying out a M&A process is the stage in which companies have to investigate and look for a partner that shows to be strategic and beneficial. This process in itself reflex a challenge for managers that are struggling to satisfy different actors with different interests, shareholders, distributors, employees, directors, clients, etc. Merging or acquiring other organization means making new groups of people working together to deliver the product intended from such an alliance. “Typically, this implies cooperation rather than conflict; teamwork rather than self-interest. All the numbers may point toward success, but finding the right organizational partner also means finding the right people and dealing with each other in ways that achieve common goals. The best potential partners, in the end, may not be the most obvious strategic matches”.

Human Resources Strategies start its influence from the very beginning of the partner selection. In fact, they are part of one of the areas that plays a more significant role in implementation and control in the M&A process, most research has showed that success in companies that are operating abroad or domestically, has more to do with creating a consistent and solid corporate culture than to creating structural innovations.

However, selecting the right company is a matter affected not only by internal issues but also by the external ones that are present in the environment surrounding the firms. This constitutes a fundamental component in the strategy built in the company over its M&A actions because “external pressure can affect this choice a great deal. If there is significant M&A activity in a given industry, the pressure to grow increases, while the choice of available partners decreases”. For managers dealing with the decision making about what partner to choose, is important to match this external circumstances and limitations with the internal requirements of people and corporate culture in order to reach and create a positive deal. At this point, the issues are oriented to understand the principal elements that managers use at the moment of evoking those Human Resources Strategies and their components as guidelines for the managers dealing the process.

47 Ibid., p. 61
Generally there are many elements that a Human Resources Strategy implies as a core competence and orientation in the organizational performance. They range from the most general to the most specific, always depending on the company being analyzed. We will bring this component in a general approach where it can be found the following:

2.6. Elements of the Human Resources Strategies

2.6.1. Corporate Culture and Identity

The term identity has a broad application in many disciplines, psychology, sociology, history, etc. Moreover, studies and research over this subject dates from more than 20 years ago and has been studied in many levels and dimensions, in between individual and group or social identity.

Identity have been defined by Tajfel\textsuperscript{48}, one of the pioneers in the research of organizational psychology and behaviour to be “the individual’s knowledge that he [or she] belongs to certain social groups together with some emotional and value significance to him [or her] of this group membership’ (p. 31). In other words, social identity is part of a person’s sense of ‘who they are’ associated with any internalized group membership”. Since social identity is what links an individual to his/ her in-group which belongs to, its clear that the same idea can be applied to a notion of Organizational or Corporate Identity which, is created by the social system that conforms the company human structures, allowing individuals to feel identified and part of it, what doubtlessly represent the start point in which a person align its actions and efforts in accordance with the group (organization) efforts. When an individual is aware of its memberships to an organization and feels like it, an attachment process is created and the motivations and motors of his/ her initiatives and performance are leaded by group or common feeling. At this point a positive distinctiveness\textsuperscript{49} addresses the individuals giving them a collective identification and acting like that. This is what Managers have to deal with in order to create the necessary identity feeling in order to strengthen employees support to any change that the company decides to go through. That is why the company identity constitutes a general and basic element into a Human Resources


\textsuperscript{49} Ibid., p. 21.
strategy that becomes more evident and determinant in that situation where change is the main feature that describes the company conditions. The deal is in enforcing the company identity going from the corporate image, ideology or philosophy, tacit and formal policies and in general the corporate culture that transmits and creates that membership feeling among the employees. Once a company has developed deliberately its Human resources strategies concerning identity, it can be said that ‘culture crashes don’t spring up because firms are different, but because actors need a social identity’\textsuperscript{50}.

Each competitive advantage is benefited by the strength of the company identity. Products design and developing, technology, purchasing operation, service, all of these areas are influenced and determined by the level of identity that employees present in order to deliver the value that the organization expects. Even more the value of identity can be noticed in those firms who own overseas offices where holding and enforcing the values and "the way of doing things" is necessary to keep consistency and quality in the operations.

2.6.2. Leadership and Communication

The advantages that leadership brings to the organizations and their strategies are a fact that has been acknowledged by researchers and manager since long time ago. Companies devote a lot of efforts in finding and forming the leaders that will take the helm to lead the firm. The strategic leadership approach that a company selects depends on its values and culture. In the wide range of leadership literature there a several approaches and theories that describe the leadership, its persuasion styles, means of communication and image. One of these approaches is stated by Lord’s leadership categorization theory (Lord, Foti & De Vader, 1984; Lord, Foti & Phillips, 1982; Lord & Maher, 1990, 1991)\textsuperscript{51}. He sustains that leadership is “the process of being perceived by others as a leader’ (Lord & Maher, 1990, p. 11) and its success depends on the ability of leaders to embody their followers' expectations" \textsuperscript{52}.

With this perspective is clear that leadership presented by this theory is not about the leader as a “unique and special" person who will hypnotize and enchant people’s organization, but is more the product of the group needs and expectations, from which the leader is recognized and

\textsuperscript{50} Ibid. p. 47.
\textsuperscript{51} Ibid., p. 44.
\textsuperscript{52} Ibid., p 44.
“created” in order to attend them. Thus, this approach is the result of leadership analysis from the perspective of leader as specific group of their qualities, to the features of the situation where the leader exists. This idea is enforced when he says “In essence, it can be seen that, if a group is to function as a group rather than just an aggregate of individuals, its leaders must represent the interests of the collective as a whole rather than just their personal interests or those of a power elites”. Formation and education of new leaders is therefore an advantageous possibility under this approach. When this happens, organizations have the opportunity to give continuity and permanence to the passing on of the value system through the following generations in the company and also to the overseas labour force.

2.6.3. Motivation and Commitment

Motivation is a human resources subsystem that has been studied since as far as the beginning of the XX century. As the father of the scientific management, Taylor developed a mere economic view of the employee that considered this to be “one of indolence and slothfulness and the individual is coaxed out of this only by the prospect of personal financial gain”. However the experience and studies made over this subject have shown that economic factors are not the most important to increase personnel motivation, since the nature of the job, the labour conditions, the organizational environment, the relationships among employees and with supervisors, and many others, have appeared as very important factors in the moment of developing and analysing motivational strategies and policies.

Being the motivation an important part of the organization support employee activity system, the organization and the respective directors of the different units creates strategy plans in order to keep satisfied and productive the employees. The particular approach each company develops is defined by how are perceived the motives that enthusiast the employees. Most of these activities are oriented toward the planning of effective rewarding values that allow employees to feel motivated and enthusiastic by a wide variety of opportunities that the organization that they belong to, offers them. This range of possibilities can go from effective and fair salaries administration, worthy rewarding and compensations, good hygiene and working conditions, good communication vertically and horizontally, and an attractive career future. Certainly, “a large component of work motivation derives not from the unique qualities of individuals but from their

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53 Ibid., p. 45.  
54 Ibid., p. 61.
collective sense of who they are and what they feel compelled to do in order to maintain and promote that identity.”\(^{55}\)

This statement is derived from the motivational approach connecting the self identity, as a component of the social identity and the stimuli that companies have to work it in order to make the human capital react and act positively in accordance with the company’s vision. That is why according to this view, motivation and commitment are fundamental products of the wise work of companies to develop the right and enough strong Corporate Identity. Employees can perceive “who they are” and what they are supposed to obtain and reach according to that vision of themselves. Being M&A actions fundamental changes in Organizations, Managers need to address this modification in such a way that employees can perceive them as beneficial and motivating.

### 2.7. Audit, post M&A evaluation

Achieving successful integration of mergers and acquisitions continues to pose serious challenges for acquirers. Applying a framework developed from the literature, we try to evaluates the company’s post acquisition management, and presents managerial choices emphasising the human aspects. Through the M&A literature, authors identify the factors influencing the post-acquisition management process as being:\(^{56}\)

- **Level of integration:** This factor depends on multiple decisions like strategic tasks, cultural and political factors.

- **Post-acquisition changes:** Research in this area is completely regarding to the human aspects. These major changes in management include the replacement of the CEO; stronger financial controls; intensive efforts to reduce production costs and debt reduction.\(^ {57}\)

- **Timing of changes:** In this field, researchers are divided on this question. Some of them argue to change as soon as possible the acquired organisation. They think that, most it is quicker; most it will be easier to avoid employees’ uncertainty. In the other hand, some

\(^{55}\) Ibid., p. 60.  
researchers argue the opposite. According to them, they prefer to talk about gradualist approach. This process requires time to learn the acquired company before designing change.\textsuperscript{58} The both theory show their efficiencies and weaknesses.

- Cultural influences; the effects of culture can take place in the early stages of the acquisition process but are especially crucial in the post-acquisition management period. Obviously, most management research about culture has assumed that cultural differences imply acculturative. Besides, it is not easy to clarify this phenomenon because this filed refers to a non-theoretical aspect.

- Employee’s behaviour in the acquired firm: Following the previous point, employees search always equilibrium in their life, and a stability, in their job. Unfortunately the M&A comes to change this point of equilibrium. That is why it is necessary to find a new one.

It is important to see how it is possible to “measure” them and which tools have leaders to control the post-mergers process. From the moment on we are talking about human aspects, it is very difficult to measure by figures the impact. Anyway, to see the differences and compare the previous objectives with the current reality is possible. By a cultural audit, we can examine and compare the values and behaviours that make up the corporate organisation. A cultural audit involves a number of steps like culture gap identification, culture gap analysis and culture bridging.

2.7.1 Cultural Audit Process

Culture gap identification is the first and important step in the process. The initial audit phase identifies gaps in perception of vision, values and management practices. To achieve this aim, one of methods is to launch meeting with employees and involve a process of integration team. During this meeting, it should identify all the data necessary to study the audit. Questionnaires, interviews and/or focus groups are the main component of this first stage. Obviously, questions are oriented in the mergers and acquisitions. For instance, managers will be glad to know the perception of each person playing a role in the M&A.\textsuperscript{59} Always during the same phase, researchers recommend running focus groups, as soon as possible. As often, using an external analysis can be taken as very relevant and more objective. To emphasise on several concrete examples using these groups meeting is also excellent to bringing out some interesting

\textsuperscript{58} Ibid.
components. After, an analysis of all of the data collected is the natural way to follow the process. Professionals have to evaluate the information and provide a report. This analysis can be done by different ways. Besides, we can expect from then, more than a companies overall, some recommendations for the future. We don’t have to forget that the aim of the audit is to anticipate potential resistance and develop a plan to minimize it.

The last step of this process is the culture bridging. At this level, companies have to develop an integration plan by communication and use the audit conclusions. Now, they can try to avoid the misunderstanding by, for instance, reinforcing confidence and commitment. Often, employees forget that the enemy is not the buyer. The enemy is not inside the company. It is outside, it is the competition. Sometimes, an audit can help employee to focus on a real fight: the marketplace.

The cultural audit is important for the acquired and acquirer company to know exactly how the firm is running. Usually, after a M&A, it appears new structures, new people, new management. All of these components cause a lot of change in the company life and its employees. Hopefully, many opportunities are offered to check the behavioural and corporate culture performance. Cultural evaluation tools generally audit several members of an organization at once to gauge the business environment. One of the tools is the Organizational Values Inventory (OVI). This method allows determining rates cultural types within the following areas: integrative, innovative, caring, stable, results driven.

Typically, the main issues visible with the OVI are the following parameters:

- Degree to which the company is hierarchical versus empowerment based;
- Tendency of managers to be decisive in their decisions vs. flexible in their decision-making;
- Encouragement of managers to be rotated into new functional areas to help them grow versus tendency to keep managers only in the functional area they were hired into

With this kind of measures in hand, the HR manager but also, the acquirer company should be able to take the best decision in term of management.

Ibid.
Cultural audit is a key issue and can pinpoint critical areas. Thanks to the audit, it is possible to provide a baseline by which to measure the effectiveness of interventions. Obviously, if the results of the company are good, one objective of the cultural audit should become avoiding some future mistakes. It is primordial for companies to forecast the future. The audit will continue to advice on the further development of the other corporate governance and performance management activities. Therefore, even if the company runs well, a cultural audit always remains recommendable. The M&A process is characterized by several steps studied in the previous parts. Many organizations use regular audits, first to provide initial baselines, and to following specific phases to quantify the impact of the effort within the organization. After to put in evidence the necessity of a cultural audit, another natural question is to know who can do it. Companies have 2 opportunities; the first one is to do it by themselves; the second one is to call an external specialized company to do this job. Usually, the second option is chosen. When surveys were done in house, the person in charge usually is not an expert and can commit mistakes in doing it. Besides, a lack of objectivity can provoke a failure in this audit process.61

2.8. Leading concepts and categories

Finally, a summary of the principal and essential elements that frame this investigation cannot be omitted. To grasp the theoretical content of the aim of this thesis following will be presented the most relevant concepts and categories that conforms the vision of the study.

Basically, when it comes to speak about M&A is referred to a business where growing and obtaining profits are the general and sustained purposes of the transaction. The way companies structure their priority depends highly in its major strategy. Even when Human Resources strategies are not always stated officially and strategically, most of companies are aware of its implication in the journey of reaching success. It’s necessary to mention that theories and models regarding to Human Resources have been developed by researchers and authors in a convenient environment, where several elements are present that allows its visualization so clear and understandable. This last statement is what comprises the challenge at the moment of observing its performance in an empirical reality. In the real life, managers and their experiences yield a scenario where those elements even when presents, don’t present those clear and perfectly identifiable components that students and researchers find in theories and models, everything comes out as

the result of the interaction of universal principles regarding the managing of the human aspects and the possibilities that the context and its dynamism allows to develop. Even though, our academic and professional interest motivate us to dig some more to discover the interesting shape that reality provides to the doctrinaire world. This study basically aims to understand the practicality and influence of the human resources aspects that are concerned in a M&A process.

Therefore, some of the more relevant aspects that are consistently present in this study regard basically the prior vision that a M&A present as the main objective of the process, that is to speak the criteria that the buyer company uses to choose its partner and thus, all the elements that will bring the kind of strategy affecting the way Human Resources are treated. Once the transaction has advanced to a consolidated acquisition, the transition process is attended as a very fundamental area of the deal. At this point is necessary to observe the movements and actions held by the new partners in terms of the structural organizational planning, new operations or those that are reengineered, in order to match the new requirements and objectives, also the models and procedures designed to fit the new organization. Following is the study of what comprises the Transition phase, constituted by all the actions oriented to make effective the transference of the new merged company into the whole labour force, transforming it into real and sustained visions, shared by the all company members.

Further, another of the aspects emphasized in this study are the elements constituting the Human Resources Strategies developed like the shape, formality and tangibility that companies grant to this area. Into the extension of elements composing this area, we have chosen those especially more relevant in the moment of performing a corporate strategies into individual strategies taking into account the M&A context. Some of these are the essential corporate culture and identity, which brings together all the actions and shared visions about what the company is about. Secondly, is the influence of the Leadership and the communications that company develops and delivers in order to make effective the decisions and direction that the company intends to reach through the time using its means and resources. Another element corresponds to the motivation and commitment, which companies have to build in order to sustain its competitive advantages supported by the willingness and efforts of the employees. Finally the Post M&A evaluation or audit, which reflex the tools, means and tactics that managers realize in order to check up the trajectory of the company performance in relation which the initial objectives drawn.
### Theoretical Framework Model

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre stage of M&amp;A. Overall</td>
<td>Initial criteria to choose the partner company, research actions, objectives</td>
<td>- Due diligence or similar processes</td>
</tr>
<tr>
<td>strategy and relation with</td>
<td>and motivation to consolidate the deal and general strategic view to go on</td>
<td>- Pre-merger contacts and communications</td>
</tr>
<tr>
<td>Human Resources.</td>
<td>with the acquisition.</td>
<td>- Initial view of the process.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources Elements:</td>
<td>Structural organizational plans, communicational channels, models</td>
<td>- Corporate culture and identity</td>
</tr>
<tr>
<td>Transition and Integration</td>
<td>and logistic intended to settle the new merged entity vision. Preparation of</td>
<td>- Leadership and communication</td>
</tr>
<tr>
<td>Process</td>
<td>the labor force to deliver the new expectations.</td>
<td>- Motivation and Commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post merger stage: Audits and</td>
<td>Actions intended to measure or control the companies’ performance in</td>
<td>- Tools means and tactics to check up and control actions and general</td>
</tr>
<tr>
<td>checks.</td>
<td>accordance with the initial drawn objectives.</td>
<td>performances.</td>
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</tbody>
</table>

Table 1: Theoretical framework model. Own source
Chapter 3: Result

Each researcher builds a selective information process about different aspects that it concerns to his/her research, this is why research questions and the theoretical frameworks function as a filter regarding what aspects take into account and what to not. Given the convenience of a complementary method that enriches our Grounded Theory Research, the cases study used for the purposes of this investigation are constituted by two Swedish companies called New Wave Group and Kosta Boda, which have merged together. The strategic transaction has been done in order to complement competitive advantages and growing organically. The difference between the core businesses of each company is noticeable, and it is very interesting to distinguish the difficulties met by the both companies. In term of employees, many changes of management and habits affected them.

3.1. Presentation of the two companies

Before bringing some information about the companies constituting the case study, we would like to state some of the most relevant reasons that lead us select this as our case companies. First of all is necessary to speak about convenience, since contacting Orrefors Kosta Boda was easier thanks to the intermediation of our thesis supervisor, who knew some strategic persons, facilitating our way into the company.

Secondly, we could mention the special transaction the two companies are facing thanks to their particular conditions and characteristics. Even when this is a national transaction of M&A, is interesting to observe the case from the corporate culture point of view, which means concerning the essence of core businesses, these are essentially different enforcing different values and priorities concerning job and goals, reflecting with these important inputs potentially conflictive in the integration process. The conditions mentioned present it as a very appropriate and meaningful selection to develop a case study research.

New Wave Group

New Wave Group is a relatively young and dynamic Swedish company with its headquarter established in Stockholm. The board of directors is composed by 4 persons. Likewise, 6 persons are in charge to the management strategy. The CEO and founder of NW, Torsten
Jansson supervises the team and manages the company. New Wave is a growing company that focuses its expansion strategy on acquisitions and development of brands within his own product segments. We can distinguish 2 different segments in the NW core business. First, this company delivers promo wear, gifts and work wear. Secondly, NW works also in the clothes, shoes, gifts and textiles to consumers throughout retailers. New Wave’s goal is to lead the development to structure the branch and create a stable platform throughout Europe.\textsuperscript{62} The following picture illustrates the core business of New Wave:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{nw_core_business.png}
\caption{Figure 3: Source: Annual Report 2005 New Wave Group}
\end{figure}

In the market place, there is no listed competitor with a distinguished division within the corporate profiling. However, there are different worldwide operators within promo wear, giveaways or gifts and work wear. Therefore it exist a lot of potential competitors around the world. In Europe, there are several local competitors in each respective market. The global operators are Polyconcept Group who is big within the give-aways and promo wear segment, with trademarks such as Clipper and US Basic. Polyconcept is the company that most resembles New Wave, has its main markets in Europe and covers the same product sections with the exception of work wear.\textsuperscript{63} Polyconcept is privately owned. Within give-aways, the large global competitors are KCF which is part of Mid-Ocean Brands whose home domestic market is Holland and BIC with pens. Within work wear, competitors are mainly Nordic suppliers, such as Snickers, Blåkläder and Kansas Venås

\textsuperscript{62} “New Wave Group”, www.nw.se, accessed the 10 of April 2006.
who also own the trademark Fristads. Other competitors consist of a number of small importers, of which several operate within the lower price-range of the market.64

NEW WAVE’S PRODUCT COVERAGE

![Diagram]

Figure 4: Source: Annual Report 2005 New Wave Group

New Wave is constantly on expansion and the results until now are good. (Cfr. Annexe 1) Besides, the group doesn’t want to stop its growth. New wave wants to consolidate its position and extends its market in each area already defined (promo wear, give-aways and work wear). It is in this environment that we could examine the situation of the Kosta Boda (give-aways area) acquisition in 2005. The role on management and strategies performed is remarkable addressed by the CEO Torsten Jansson. His leadership style is fundamental and determinant, influencing the whole business of New Wave, including primarily the acquisitions deals.

3.1.1. Orrefors Kosta Boda Group

Kosta Boda was founded in 1742. It is the oldest glasswork company in Sweden. This historical heritage is very important for the company, in term of know-how but also, in term of marketing. The factories of Kosta Boda are situated in the heart of Sweden entitled “The Kingdom of Crystal”. The reason of this name is simple; Kosta Boda is not the only one crystal company in this area. To understand deeper the particular situation of Kosta Boda, it is important to make a distinction between Kosta, Boda, åfors and Orrefors. Today the group Kosta Boda includes these four manufactories.

Kosta is the real oldest company and was appointed official supplier of window glass for the new royal palace then under construction in Stockholm. The palace is also home to a large collection of modern glass, comprising both art glass and utility wares, since Kosta Boda is even today a purveyor to the King. If the windows were the first utility work of Kosta, quickly, they started to develop other items like tableware, vases, candlesticks, dishes and bowls to the finest art glass.

The Boda Company was founded in 1866. This company has the same core business of Kosta. Therefore, it is naturally that they merged together in 1976 to a unique company: Kosta Boda. Now, thanks to these artists, Kosta Boda is famous around the world for their colour and a design idiom like no other.

Afors was founded in 1876. Afors, which merged with Kosta in 1964, producing such novelties as snake flower vases and "Open Mind" vases that are half woman, half cat (for instance). The core business of this company is much closed from Kosta and Boda Companies.

Thirdly, Orrefors Company has not exactly the same history and the same core business than the others. The Orrefors trademark is characterized by a classical design. Orrefors products are synonym of a strong and very nice gift. It was founded in 1898 but it is only in 1990 that the company merged with the Kosta Boda Group.

In 1997 all the Kosta Boda Group was taken over by Royal Scandinavia of Denmark. At the beginning, the new Danish owner wanted to create a strong brand within the group for Orrefors Kosta Boda. The crystal business would be coordinated from Orrefors Kosta Boda, in Småland, thereby giving it new opportunities to further develop its operations. Revenues in 1996 amounted to SEK 664 million, with around 1,000 employees. Manufacturing is done at six glassworks in Småland. Sales companies are located in the U.S., Australia and Japan. Other sales are handled through agents and distributors in 30-odd countries around the world. Nonetheless, after few years, the results of the group were not excellent. They started to close 2 factories and fire people. The results didn’t improve and in 2003, they decided to sale Kosta Boda group. It is

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only 2 years later, in 2005, which they found a new buyer; a Swedish company called New Wave Group, who is specialized in corporate promotional items mostly for European corporations.

Quickly, New Wave group understood the big challenge of acquiring a company with an unhealthy economy. The motivation of employees was the lowest possible after these last years owned by Danish Royal. Like it has said earlier, the artists of Kosta Boda have a decisive role to play in all the creative stages of the process. The cooperation between the designers and the skilled craftspeople is very close; indeed, in this business area, the psychology is very important and is a determinant factor of success. We will see that New Wave focused their efforts on the ability to motivate people.

3.2. Relation between M&A strategies and Human resources strategies: Preparation phase

Regarding our empirical data presentation plan, we have sorted out the information obtained by the interviews according with the principal dimensions that this thesis is focusing at. Relations between the reality collected and the statements and concepts presented in the literature, provide as a result a systematic view about the cases study reality that will allow developing a critical analysis and interpretation process.

About the perspective built pertaining to what constitutes corporate M&A strategies in relation with Human Resources, questions about reasons and objectives of the transaction were asked. Following is the summon up of all the issues brought to light by the interviewed Eva Marie Hagström, concerning the general M&A initiatives of the NW.

3.2.1. General objectives and purposes of the deal

According to the core business of NW, and especially in the gift area, the CEO of NW wanted to have a premium brand acquiring Orrefors. Mr. Jansson saw a good opportunity to take advantage of the unhealthy economy of Orrefors Kosta Boda and to have a strong brand in term of gift business. NW is in different businesses like cheapest textiles and gifts, to the expensive ones in a pyramid view. Being Orrefors and KB quality brands, they are allocated in the top of the Pyramid of this segmentation. The reasons of the success of NW are its strategy in creating
synergies in its business areas mostly in their strongest strengthened ones, like in development for the product and branding business. Also competitive advantages are represented by its network. Furthermore, with the financial and management knowledge of NW, the aim of Mr. Jansson was to improve quickly the figures of KB by his clear management vision and direct leadership style. Besides the factories (production capacities) and the well established market aim belonging to Orrefors KB.

3.2.2. Strategic expansion

NW had also a large vision for this acquisition. The big initiative of expansion in terms of products and tourism comes from the big potential that Mr. Jansson together with Mr. Anderson saw in the area of Glasriket. Up to now, just because of the glass workshops and outlets, they have registered more than 1 million visitors therefore; the strategy was thinking to provide those visitors with many choices of recreation, entertainment, shopping among others, that will certainly transfer in a lot of profit. Close to the Kosta factories, he’s building two new stores, a new hotel (with spa) and so on. One store will be for their products and the other one will be for extern sales (like NK). He would like to create a new environment in this area. He’s expecting to increase sales by a strong marketing and sales strategy. Basically one of its purposes it’s to exploit the tourist potential of this area. Another example to illustrate the vision of Mr. Jansson is his objective in term of job: reaching 1000 employees and 1 billion in turnovers.

3.2.3. Acquisition model, the preliminary preparation phase

During this preparation phase, NW took contact with some Kosta Boda managers to see exactly the situation of the company. For instance, collaboration with the Human Relations Department responsible started several months before the acquisition. It was a way to judge the company from a KB insider perspective. At this point several positive points were identified that enforced to proceed with the deal, as the importance for Swedish people of the crystal industry and therefore the potential of a company such as Orrefors KB. The NW CEO stayed in the area for a while after the acquisition to see what this strong culture was about. He saw that actually, he bought a Swedish heritage and its connection with the Swedish people and their home traditions. However, it was a gap concerning some of the standard steps of the due diligence, like a deeper
evaluation of culture, human resources issues, among other soft issues, giving more attention to financial facts.

In other hand, Kosta Boda saw a good opportunity to find a solution to their previous bad years. Besides, due that NW core is retail and business to business, it had to find synergies within all its business fields like design, product development, purchasing and distribution. They work with trade marks in the business to business area which are strong and dominant in Sweden already, mostly in textile and clothes (workers clothes). When it comes to retail craft is the most famous and outstanding segment. Even though, the former board of managers were glad to find a buyer after to 2 years. The last 5 years before the acquisition, the turnover of Kosta Boda decreased. The results went down because sales decreased. The cost of administration (middle manager) was high. The employees were decreased in the administration areas. Like the cost was high, the glasses prices increased too.

The last 2 years, under the ownership of Danish Royal Scandinavia, Kosta Boda was for sale. In this bad environment, the owner didn’t trust in his employees. They had no project, no future and no vision. So it was very difficult to work in these conditions. The former CEO found complicated to be able to get inspiration and give commitment. The risk of Kosta Boda to lose their own old and traditional identity with this collaboration represented a very critical issue in this particular case of acquisition; New Wave Group explained directly that they didn’t want to lose this heritage in Sweden. Moreover, they wanted to use it as a strong brand and an image of quality, this was the main strategic competitive advantage in which NW prepared its integration vision for leading a successful deal.

3.3. Elements of the Human Resources Strategies: Transition process

3.3.1. Corporate Culture and Identity

To understand the mechanism of what NW group is, it is primordial to talk about his CEO; Mr. Jansson. NW corporate culture is not very common in Sweden. Torsten Jansson is the main owner and has more than 3000 employees around the world. It involves 59 different companies. Anyway way, NW reflects to be a company that knows where it is and where is going to. Growing strategies are so well identified that there is no place of uncertainty or ambiguity. Its entrepreneurship style is what highlights its way of doing things, the way people perceive and understand opportunities to improve or advance for the sake of the corporate goals. In the other
hand, Orrefors Kosta Boda presents its very special handmade and traditional environment; it is a handcrafted, traditional job and people are working with their heart. Product and brands is what define the culture and identity of the people. In one hand NW is recognized to be a business corporation, what implies a very structured vision about profits and financial objectives. In the other one, Orrefors Kosta Boda is a heritage traditional Swedish company that devotes itself to one of the most appreciated features of the Swedish culture, glass work, that always has kept an important place in the Swedish style of life, not only national but internationally.

3.3.2. Leadership and Communication

NW is a corporation leaded by a special and well recognized man, Mr. Torsten Jansson, he has an entrepreneur style management with a high performance as a direct guide and leader. His presence is a strong factor that enables the transference of his visions and initiative to the whole group. He likes to say that if “he spends a long time in a company that means that the company doesn’t run well”. Therefore, he’s very engaged into his companies when the firms have some troubles and then, he let them run independently. In Orrefors Kosta Boda, the leadership style was not so vigorous, and besides former owners were not engaged into the company future, even having not very clear about an eventual bankruptcy. The 14th of June 2005 The new CEO, Magnus Andersson, from NW, took his position within the Kosta Boda Company. When Mr. Andersson took his position, he was very direct and clear about the financial situation of Kosta Boda. This made aware the rest of the organization about the critical needs that the company had, and the needs of cutting costs. The 20th of June 2005 with the unhealthy economy of Kosta Boda Group, NW had no other choice than to fire 67 employees (basically middle managers) but after negotiation, it was 59 persons. In this reorganization, there were no artists or glass workers fired. A real emphasis on making the people conscious about the financial deficit, made the lay-off to be accepted better than expected.

In terms of communication and strategy, the new management in charged of KB decided to launch a concrete and very clear plan for the whole company. The REX model was established to orientate actions and performance.

R.E.X. = Road to excellence, include 5 Key issues:

1. Control of cost: Finding the way to keep costs low.
2. Sales structure: effectiveness Improvement in the performance of Sales representatives in Sweden and around the world. Getting new customers into the business area. For instance, they can add the NW customers now.

3. Effective production: The four glassworks factories have to be more efficient in terms of speed and raw material efficiency.

4. Products development: Higher speed in production and purchasing. Even when purchasing doesn’t represent too much just a 3%, it’s considered important to make it more effective. The NW vision consists in expanding and increasing the diversity of products. Moreover, they have inserted the modality of season collections like spring and autumn, to specialize and differentiate its products with new models.

5. New Markets: in the Business to Business area NW is creating new corporations, expansion overseas (through subsidiaries): As an example of new markets penetration is the opening of a new company in Shangai in order to allows KB to sell in those premises its products. They are increasing and attracting more customers. The Chinese Market has become part of its vision. KB and the other NW Corp. brands are getting stronger; even it has gotten published by the third biggest press group in China which represents a strong interest for the company.

Besides these 5 key issues of the REX program, New Wave had the willingness to reorganize its organizational structure. They have made it flatter (cfr. Annexe 2). With this new structure, they gave more responsibility for every employee inside the company. In mixing several departments, they wanted to improve the efficiency and reduce costs. Following we can notice the difference in the reorganization of some of the main department into the company:

<table>
<thead>
<tr>
<th><strong>Before REX</strong></th>
<th><strong>After REX (Now)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- <strong>1 brand department</strong>: Exclusively for Orrefors. Inside this brand department, there is marketing, production of boxes and packing.</td>
<td>Currently, there is an Area manager who is in charge of the both brands. He has a marketing manager and sales manager. The 3 guys are working together on the both brands and communicating to get the right products.</td>
</tr>
<tr>
<td>- <strong>1 brand department</strong>: Exclusively for Kosta Boda that used to do the same work.</td>
<td></td>
</tr>
<tr>
<td><strong>Product development</strong>: was separated also between KB and Orrefors</td>
<td>Product development department is working for the mentioned managers, on the both brands.</td>
</tr>
<tr>
<td>- Human Relations department - IT department</td>
<td>Now, they made a mix to create a General Administrative Department, merging the two departments into 1 department.</td>
</tr>
</tbody>
</table>

Table 2: Reorganization changes with R.E.X model, own source.
Simultaneously with the REX model, they developed another complementary guideline to reach the objectives. This model is called Mission Objects Measures and Strategies (MOMS, cfr. Annexe 3). Every department has done its own MOMS. The model has been broken down in smaller parts, concerning each unit. They consider this model like the plan developed by New Wave to improve Kosta Boda Results. This plan is an overall strategy for the group in combination with the time plan. A precise time plan helps employees and managers to see exactly where they are. People are informed each week through the computer by internet. Like that, they can see what's happening with the exportation and product development and the overall improvement. It is Magnus Anderson (new CEO) who is in charge to inform employees.

To communicate these new dispositions, NW organized a big meeting to reach everybody with the same message and in the same time. (Except for the managers of department, it was during the morning). Except it, there is no favouritism inside the company. It was a surprise to make this announcement (15 of June 2005) because almost everybody though that they would talk about lay-off. It was just to launch the new process. With this communication method, the plan was well accepted by the employees.

Questions about the biggest challenges in the transition process were asked. It was said that the transition between NW and KB has highlighted the leadership style differences in both companies. Before NW, the leadership style was completely different; transmitting the information was obscure and the there were no clear objectives and aims. With NW and his emblematic CEO, Kosta Boda Group is improving their results. To understand a little bit this gaps between the old and new management, the leadership of Mr. Jansson is a determinant element. Torsten Jansson is naturally very close to the employees. By his classic and autochthon habits, Swedish employees are easily identified with him. For instance, he's dressing in jeans and t-shirt. Besides, he likes the “snus” and drives a classical car (It is completely the opposite of the former CEO who was more status distance). An Employee told us some anecdotes that illustrate his behaviour during this first year in the head of Kosta Boda. For instance, he didn't want to have a big and luxurious office in Kosta Boda. But the only office that it was proposed to him was the former CEO office (big and luxurious). Finally, he had to accept this office but it is not what he wanted. Another anecdote recalls one of the first meetings, when he personally cooked for his managers.
3.3.3. Motivation and Commitment

The motivation is a soft issue ensured and delivered by means of leadership and communication as well. One of this ways is by how The NW CEO considers all of his companies, these are like small-size companies in terms of the need of remaining high in communication and close contact. It was stated by our interviewed that the acquisition by New Wave Group was very welcomed and expected due to previous financial and managerial difficulties. In this appropriate environment, the new owner had some opportunities to manage easily and make accept his decisions. Like it has been said, NW started its new management by a lay-off of 59 employees (cfr. annexe 6). Is interesting to see how the employees have “easily” accepted this structural reorganization of the company and how it was managed by NW Group. A change in the management style was accompanied with a strong sense of enforcing good and direct communication, team work environment, honesty, personal engagement, and a promising and clear future. Through these values, New Wave decided to manage the transition from an unhealthy and unmotivated corporate situation to a profitable one by a direct communication.

To mention other means to keep people motivated, satisfied and self confident, managers emphasised the recognition of their achievements and good performance to their employees. The CEO is close to the people; he gives compliments and encourages them to keep like that. This is one of the best strong and natural ways to achieve commitments. Moreover, this method of working gives a lot of pressures to the employees. Eventually, to work more and better is through gaining the willingness of the employees (e.g.: giving away some Christmas items or gifts: everybody worked a lot and they received compliments). Also for Christmas, they received a nice and personal letter from CEO’s to reward them.

Last but not least another example of Mr. Jansson management and his clear-vision to impulse and elevate the company; even when he imposed new strict rules in terms of time and speed, designers and employees in general, got enthusiastic by the sense of direction and control that the new management of Jansson provided. They increased their production for the different product lines to a season’s collection conception. Mr. Jansson met the entire designers in August to see what they could propose. After few months, the whole creative group was gathered together in the same room in order to create and get inspired with each other. Like that everybody could see the products of everybody else and compare it. Before this meeting, some of these designers have never met each other. An underestimated potential of creativity was released by the new
exigencies of products and design therefore, a potential overpressure or stress among the designers was overcame. All of the creativity that slept during 2 years exploded with the M&A. At the end, designers enjoy to create in rush time because they have precise objectives. Moreover, our interviewed insisted to emphasise that communication, leadership, identity and other soft issues work together as a motor to incentives, employees to “join the ride”.

3.4. Audit and Post-Merger process and evaluation

New Wave is concerned to enhance financial figures. They don’t talk yet about a cultural audit but more a checking by figures to prove if the business runs well. Mr. Urban Enquist, manager of Human Department, stated in the interview held with him, that the production was increased these last months. He mentioned that considering the results, the employees are satisfied with the current conditions. Besides, in terms of Human Resources, even if the production was increased, they didn’t register and increment in days off taken by employees for illness reasons. Even if they didn’t make a specific survey about the satisfaction of the employees, managers pay a lot of attention to this topic. In the Kosta Boda case, all the employees knew very well that the company was not running well before the acquisition. Therefore, they are willing and involved with new “expected changes”. The main message was “stay in the company and struggle with us, there will be a rewarding, a final aim” Besides, Torsten Jansson “let the choice” to everybody to leave or to stay in the company. For the people who stayed, it means that they would be involved in the process of recovery. Rotation rate was not present in the transition, except for the lay-off.

Until now, results are satisfying. Everything is running like it was forecasted. In some areas, like the production, they are even in advance with the time schedule. With the large vision of the CEO, Kosta Boda would like to re-hire the ex-employees fired in June 2005, through some of the other companies, due to the value and knowledge of this people. Moreover, the willingness of Mr. Jansson to develop the geographic area in term of hotel and activities gives a lot of legitimate prosperity for the citizens of this Swedish area and even more inside the company.

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66 Urban Enquist. Interview by authors, Orrefors, April 23, 2006.
Chapter 4: Analysis and Interpretation

4.1 Introduction

Pre stage of M&A. Overall strategy and relation with Human Resources “Understanding the present through knowing the past”

M&A Human Resources strategies should be aimed to achieve integration, commitment, flexibility and quality, these were the main components sustained by David Guest (Guest, 1987)\(^{67}\), if these qualities are achieved, the levels of productivity and performance should be enhanced. In M&A process of New Wave Group and Orrefors Kosta Boda represents if not a rare case, the endless struggle of companies in order to keep alive in the competitive arena of markets. To grasp the current actions in the transition process held by the companies, is necessary to highlight the most important features of the context influencing them in relation with the theory framing the study. Current conditions are not mere initiatives of the managers trying to catch up trends and innovative managerial resolutions, is the result of mixing the heritage brought by the company antecedents in terms of, organization, abilities to overcome internal and external crisis, innovation and responsiveness, corporate culture strengths, etc.

Kosta Boda even when performing as a classical manufacturer of glassworks has established strongly its dominance in the art and utility glass market. Its identification as the leader and representative of Swedish traditions has allowed it to expand not only in the national market but also overseas. Orrefors Kosta Boda products can be seen in the most popular stands around the world next to other famous brands like Waterfors among other. Like this, it can be observed the classical value system that sustains a company, gathering different strengths in order to remain solid as far as it is possible.

Even that the company along the years and its situation of changing owners to gain nothing else than financial and economical health, has suffered a considerable declination concerning its future visualization. Lack of faith, planning and investment, has repressed it to gain the overall and natural growing expected from any kind of organization. Therefore, the New Wave Group intervention as the acquirer and “savoir” actor is what comprises the most relevant features of this case study. Primarily the analysis of this case has to be started since the beginning. This basically is constructed around all the objectives and visions that the acquirer company presented

\(^{67}\) Stan Lees, Global acquisitions, Strategic integration and the human factor (Ed. Palgrave 2003) p. 147.
at the moment of choosing the target company. Due to that NW basic operation is to grow through the acquisition of positioned brands and products, in necessary to discuss the context this view involves. Its solid and sustained financial and corporative strengths allows NW to search in the markets for potential partners that are able to deliver new values to the group. Among the most relevant qualities that NW was searching for, was strong product positioning, brand strengthens and diversification potentiality.

In its sought NW found gathered those qualities in Orrefors KB, even when these were unexploded. Likewise, even when KB presented those important strengths, at the same time it presented an unhealthy and weak financial position that was waiting to be saved by an injection of investment and plans. At this point we can identify the natural evolution of the events, and we can mention that New Wave presented the role of bottom fisher buyer as one of the classifications presented by Ed Paulson of buyers and their initiatives for acquisitions, acquiring an under valuated company with incredible potential for synergies.

In this interesting field, the operation held by NW can be classified to be one of Rescue this, in accordance with Pritchett Price, who exposes the rescue takeover where “the to-be-acquired firm is casting about for help, looking for relief of some sort. The purchasing firm, therefore, is basically viewed as a welcome party. Still, there are almost always some mixed feelings on the part of the firm being acquired. Being rescued ordinarily is just the lesser of two evils, not what the target company would choose if it had any good alternatives”68. However, into the category of Rescue acquisitions, it might exist different types, concerning the different circumstances involving the situation. For Orrefors KB, basically the type of Rescuer was that with the necessary financial willingness to invest in the company which was potentially in the edge of bankruptcy. Moreover this view of rescue acquisition is suitable to be the interpretation of the company in terms of the social system that compounds it. At this point it can be mentioned the element developed in the phase where NW started its contact to know its acquisition.

When is mentioned the perception of the acquired company is being said no more than the group of expectations and perceptions sustained by the people inside the company, after all is the human capital the main and principal object of benefit or in opposite, prejudice. Besides, the

situation of non alternative moulds the human capital of the acquired company with a special willingness to accept the minimum and necessary improvements that any acquirer can offer. Is a survival situation, where even not the best alternatives, are essential and fundamental for the continuity of the company.

Concerning the initial contacts of NW before the acquisition, it addressed the process focusing on the financial figures of KB; it maintained relations with former managers who served as source of the information needed. According with the theoretical review of this study, they didn’t manage the due diligence as it is, but regarding their main interest in the company they filter what they wanted to see and enforced the advantages to acquire KB. Regarding the aspect of due diligences, Cisco Company can be considered as an interesting example of how big and established companies manage this process. Cisco Co. “has systemized the acquisition process so that it is treated as a standard part of business operation”. Clearly this represents a different planning process, since in the case of NW, acquisitions process are adapted to each case and its never developed in the same way. It was mentioned by the interviewed that after the deal, many surprises came to light, when the CEO, Jansson, realized the magnificent potential that the company presented in terms of product and capabilities. It can be considered a very empirical process, oriented by the instincts and assumptions of the experience more, than the structured and formal process that other companies usually hold.

However, this way of acting can be considered influenced by the dimensions and size of the company, to make a previous “audit” of the company was not necessary to follow a strict and structured model to delve into each corner of the company. It is interesting to see, that NW has performed its acquisitions strategies in a resource base perspective, due that one of its determinant factors to proceed or not with the acquisition is pondering the technological, managerial, economical, and operative resources that are available in order to respond efficiently with the acquisitions objectives and requirements.

Theorists agree that each M&A is always defined by historical performance, representing a strong factor in how the company will behave in the negotiation process. In deed, the previous unbalanced financial situation of Kosta Boda, can easily make think to the acquisition team in NW, that there might be some managerial incompetence into the current board of managers of KB after all, the bad previous situation couldn’t be just caused by the lack of willingness and performance

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69 Ed Paul “Inside Cisco” p. 35.
of the former owner, and that might lead to develop substantial modifications to the structure of the staff and even the number of them, ensuring like this, the present group of managers including their own "party". That was in fact one of the main and most notorious changes held by the transition process, the organizational structure was adapted to a flatter one, where responsibilities and communications are clearer and more direct also, the functions of some basic departments were reorganized in order not only to decrease costs of labour passives (salaries), but to enforce its competence and efficiency.

This procedure is very noticeable concerning the Human Relations responsibility in the company. Initiatives to decrease bureaucracy and improve responsiveness was developed, reducing personnel size in charge, reallocation of those remaining and reengineering the procedures concerning law issues as well as training, rehabilitation and health matters for the employees. Likewise, cooperation is the main principle leading the deal. Each company is acting by preference, leaving aside any other kind of hostile takeover.

New Wave Group is a "one-man company"; its way of evolving as a big corporation has been highlighted by the presence of the "White knight" figure represented by Mr. Torsten Jansson. This transmits a lot of the idea of New Wave corporate culture, as a big team of people regarding the wide and strong experience and knowledge of their shepherd. Due that acquiring a company in the terms NW did, it’s important to address all the potential confusions and ambiguities that a radical organizational change like this, can provide. In this terms the strong and defined leadership of NW CEO, represents a main feature in which a wide range of elements rely on. Mostly its participation is manifested in those issues related to the overall corporate strategy, product and development matters, market and information issues, etc. But also regarding the type of an acquired company like Orrefors KB, his leadership style has likely to be appreciated more in a sense of direction, management and future.

Concerning management decision making, this kind of deals can bring some inconveniences if not addressed carefully. KB as the acquired company can be placed in a lower level, where a docile position is likely to rule. However, the company was looking forward not only to find a financial refuge and support, but also managerial capabilities that is able to explode all the potential not released by the former owner. Therefore, improvements and increase in production, design and all the procedures involved are welcome as new outcomes of this deal. Anyway, in this field, the knowledge that NW has obtained about the business of KB remains as an important
signal of how to proceed without prejudicing the value and sense of KB as an overall organization and therefore, maintaining all those qualities that NW was looking for at the moment of proceeding with the acquisition.

About the pre stage process, as Stan Lees sustains soft capabilities present a further difficulty, like tacit knowledge and attitudes and beliefs and all the human components that conforms a corporate culture. The can contribute enormously to performance and value but in ways that can be very difficult to pin down and measure. Strategic Human Resources management goals, like commitment and identity fall into this categories.\(^{70}\)

Changes in the transition have been made quickly, which has easier the response of Orrefors Kosta Boda people. Important investments and the launching of several projects have gained the good will and trust of people. Important facts such as expansion into new markets like the Chinese, widening the range of products and design, opening of new outlets, a strong emphasis to increase sales, creates the “fighting spirit”\(^{71}\) that people were looking for, representing the age of recuperation and strengthening needed.

### 4.2. Elements of the Human Resources Strategies: Transition process

#### 4.2.1. Leadership and Communication

Regarding leadership elements and features of the communication presented as part of the theoretical review, is a necessity to mention the New Wave CEO: Mr. Torsten Jansson. Actually, his own management influences all the M&A process with Kosta Boda Group. His management style can be considered as a pivotal element sustaining and orienting all the organization actions, also it can be compared in its own level, with very strong and recognized entrepreneurs such as Mr. Knight from Nike Inc. or Mr. Branson from Virgin Corp.

There are several basic reasons that cooperate together to give him the advantages to act as the “big man or hero”. First of all, Mr. Jansson is the founder and owner of the New Wave brand grating the tacit authority and seniority to fill up his initiatives with credibility and acceptance.

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\(^{70}\) Stan Lees, Global acquisitions, Strategic integration and the human factor (Ed. Palgrave 2003) p. 103.

\(^{71}\) New Wave Group annual report 2006.
Then, he has been hailed as a **visionary** for his company's breakthrough design and strategy process. For instance, he developed many companies with different core businesses. It was not apparently compatible between each others. Anyway, he matched these different businesses and it runs well. Into the categories of product segments of NW, he managed to create strong competences and synergies that have reached consolidation with each new acquisition done. Therefore, thanks to his ideas, he built a strong and diversified Swedish brand. Actually, through his energy and force, he has made very clear what New Wave is about, this has enriched the process of recruiting and people selection, facilitating the identification of those aspirants that are able to match with the company and that are able to “join the ride”. Leadership is enforced by the team of the right professionals and people who dedicate their time and efforts for the sake of the organization.

Secondly, through his high level of presence he enforces the **communication** in his management. Through many examples like continuous meetings, dinners among others we saw the strong work oriented to emphasise and enhance the communication. To announce an important strategic change or to say a daily requirement/ feedback, he prefers to be direct with his employees avoiding bureaucratic means as traditional written communication, etc. This is well appreciated by workers. Furthermore, his **humble but disciplined spirit** is also recognised by Kosta Boda employees. It is easy for them to associate their boss to their life. He tries to avoid status barriers between him and the workers. His behaviour can be analysed like a good strategy to motive his troops but also like a natural way of management.

During the transition phase, Mr. Jansson (helped by Mr. Andersson) recognized that the results of Kosta Boda were not so good. Indeed, the company abandoned by its former owner was close to the bankruptcy. He decided to change the management of the company. The new business model has shown his efficiency. For instance, the company had been able to reduce the lead times for developing new items from nine months to six. This story emphasized on the importance for Mr. Jansson to stay **aware** and to be able to change if it is necessary.

Leadership is regarded in this case as a sustained mean in the implementation process, many organizations stay in alert mode up to the moment of signing the deal, often reducing the attention and intervention for an excessive trust in the planned transaction, letting it goes like if it’s a mechanism already activated and capable of remains active by itself. The leadership is presented as a chain of visions, plans and values that keeps people attached to the cause and to the new initiatives concerning the overall company. Moreover, with his visionary strategy, he decided to
invest in new big and daring projects like the “Kingdom of Crystal” area with hotels, shops and so on. That demonstrates a complete devotion from him to reach the success in this business sector.

According to the above described, Haslam portray the importance of the leadership style to enhance the employee’s contribution. (p. 31) if one exceptional person is capable of mobilize the energies of all others, the business will run by itself. CEO of New Wave understood perfectly this principle. Through many examples, we can see that he applies according to the letter this concept. Besides, if his approach is identified like the “great man” theory he is also completely accessible for everybody. Being friendly and strict confers a strong advantage for his management. Not only in terms of employees but as a self promotion that enforces the company image in the market and among the stakeholders trust.

As we said earlier, it exists two different ways to contemplate the management approach. One of it is to change as soon as possible the acquired organisation. They think that, most it is quicker; most it will be easier to avoid employees’ uncertainty.(p. 30) In Kosta Boda group, this was the dominant principle. Actually, the previous management was especially bad and it was important to show to employees that strong changes were coming. Besides, it was compulsory to modify the management to improve the company. A lot of different examples are visible to illustrate this approach. For instance, the substitution of the CEO for one from New Wave is, obviously, a strong signal for the employees and a way to secure the performance. The R.E.X. model (p. 46) is also a symptom of this willingness to change radically and effectively the things.

All the new requirements included in the R.E.X. model have for objective to let the company be more capable and therefore, profitable. It is obvious that this change of management involved a lot a modification in the workers life. This high level of communication allows a mutual understanding (p.24) between the 2 companies. All of the components included in the R.E.X. are useful in a new management style. It is important to notice also that this method incorporates clear objectives and give a common guideline for everybody with precise deadlines. It is very important, in term of the people perspective, to let them know where the company is going. Another feature of leadership in the case is the multi task characteristic, since it has to determine and orient from the most general corporative decisions and plans, to the most specific and individual details regarding peoples attention and satisfaction.

4.2.2. Motivation and Commitment

As it has been said earlier, New Wave CEO transmitted naturally a good driving force to his new employees. (p. 49) in this specific case, the need for survival is the most obvious and relevant motif for the process to run.

According to the “new” management style (20th century), new CEOs consider directly all the employees (blue-collar worker and middle manager without distinction) like a potential interlocutors to discuss about the company improvements. The CEO should be perceived to be completely accessible for the employees. That’s a way to enforce the motivation and the wellness inside the company. To illustrate this management preference, they reduced the barriers between the different hierarchical positions rapidly, the new board decided to modify the organizational structure and let it flatter. It is a good way to reduce, first the cost but also, the distance between people.

At the end, the information loses decrease within the company and trust, cooperation and solidarity increases and is favoured. But this is only the form that the means of motivation and commitment can get, this elements are not only brought by the wishes of the new management, but in fact it should be a result of the corporate culture of the company and the ideal situation that new plans and missions envision for the company. Is not just about good willingness to make people feel motivated, it’s about finding the right means that fit with the people needs.

As mentioned before, the big factor about the high motivation of Kosta Boda employees is the necessity to get a better situation. One way for NW to enforce the work was to tell them the truth about the bad financial situation of Kosta Boda Group. This method confers a strong tacit coercive power for NW in front of its employees. Like it was said in a diplomatic way, in the first months of the acquisition, people who are not agree to work more to save the company, can find another job. In these terms we can bring to this analysis and discussion the real reasons for the employees to collaborate and be willing to struggle. It can be said that could come from the effective ways that the experienced managers developed and implemented the process but as well, it can be just the result of a natural state of human as it is the fear of loosing the job, and get out of the company.

Even more when it is about a production and traditional company, we can think about those employees that since early ages started the handcraft job in the outlets and workshops of the
company and since then, they don’t know how to perform other occupation. Therefore, the issue regarding people responsiveness in terms of performance and commitment reflexes a quite strong dilemma regarding its interpretation. This is quite important at the moment of measuring the real commitment presented by the employees in terms of understanding how much change and at which pace they are able to follow. New Wave had not just to inject a good “team” spirit (meeting between designers and so on) but also a real and solid sense of future and reason to be.

Furthermore, the underperformance of the last 2 years before the acquisition gave to their workers the willingness to “explode” and show what they are able to do. What concerns the sustaining of commitment among the employees managers can acquire different approaches, from the most traditional and classic like good performance recognition, monetary incentives, extra job activities etc but in a M&A case, all this issues are not so easy to deliver most when one of the principal objectives is decreasing costs. Therefore, the company has to play with other elements that are less monetary but even though, that can cause the same effect, in this terms, the process in this case has not been completely envisioned and is exposed to bring some bad surprises, since there are not specific and tangible reward for the employees to obtain. Up to now, they just have to take the most from plans and future vision in order to fill the people up with expectation of growth and expansion and all the advantages this will offer when accomplished.

Haslam argued that the importance of the identity of employees in the group as a huge motivation to be more efficient. (p. 37) The motivation is associated with values. When New Wave took over Kosta Boda, it came with some strong values shared by Kosta Boda at now. The fact that members accepted one another’s beliefs toward a common end causes each participant to accept the shared ideas of colleagues as a prime basis of truth.73 By commitment, Janson Torsten created a common goal to everybody. Actually, it was not a big deal; the objective of the company is to avoid the bankruptcy. Obviously, entire employees accepted very well this idea and started to trust in new CEO.

73 Ibid., p. 73
4.2. Audit and Post-Merger process and evaluation

In the acquisition process held by NW over Kosta Boda, it was not noticed a specific and concrete tool like the OVI model (pg. 34) to serve as a basis for cultural audits and Post Merger checking. Employees expected a lot from this new buyer and New Wave was well welcomed. It’s true that the cultural differences between both companies are huge. In one side, there is NW that is an investment company where the profitability and figures are the dominant interest. And in the other side, we find Kosta Boda Group that focuses on the tradition and the well-done crystal products. A cultural clash was possible and foreseeable. Otherwise, we didn’t see a clash during the M&A process but the opposite; actually, each company took the best knowledge of each others. That’s why Kosta Boda Group managed by NW tries to reach a perfect balance between good product and healthy accounting. We have to recognise that, until now, its run well. These elements show a high level of integration between the both companies.

Step by step, the integration looks forward to get consolidated. The replacement of the CEO; stronger financial controls, intensive efforts to reduce production costs and debt reduction are the perfect example of this process. Also, NW had to introduce a new system to manage information and data due that “The growth of New Wave Group has created an increasing paperwork problem for the Sweden based company. Now the head office has regained the upper hand by using QuestPDM from Geac RunTime”. Like this the risk of loosing important register, data and information needed in order to work as a system, can be controlled. Certainly managing and controlling the information is a way to control the people. Giving them access to necessary and homogeneous information allows sustaining the necessary conditions for efficient performance and the diminishing of uncertainty and ambiguity.

According to Stan Lees in his presentation of essential controls in the M&A process states that “any changes to the target have to be in tune with the acquisition strategy and be the most appropriate to deliver the strategy. There may be few changes or many; the key control is to boundary management from day one”. From this point of view, it can be interpreted some efforts into the case study process, to proceed and implement some tools and means to reach this management boundary.

The M&A between NW and Kosta Boda Group follows the principle described previously. (p.33) Besides, Mr. Jansson is personally in charge of this project and he will stay up until the end of the perfect integration between the both groups. Otherwise, thanks to the MOMS model (cfr. annexe 3); managers are able to see if they are one time according to the schedule, this as a strategy to manage the new timing for production and delivery.

According to control means, the MOMS model seems to be a determinant tool, managers have the opportunity to check the work realized step by step. Besides, presenting a flatter structure means that it is easier to control. The control and audits is supported also by:

- **Quantitative controls:** Basically performed through the Economy Department, it’s in charge of checking and audits through Balance sheets and other accounting classical tools.

- **Qualitative Controls:** This Control made by direct oral feedback through a very “down to the floor leadership”. Besides, this encourages people to feel confident to communicate and say what they think and opine. This Fluent internal communication supports controls by leadership, like a symbiosis.

It is obvious that we don’t talk about cultural audit described in the theoretical part of the thesis. Nevertheless, CEO’s consider the MOMS as a good way to measure the efficiency and a fortiori, the employee’s satisfaction.

In this field it can be considered as a disadvantage that NW doesn’t sustains and implement a cultural audit as itself. Like it was said, it is not because there is no problem today that it will be the same tomorrow. One of the objectives of a cultural audit is to anticipate potential resistance and develop a plan to minimize it. There is a battery of tools for addressing each cultural component. Nevertheless, it seems that NW doesn’t judge the necessity to apply them right now. Its like if the process is oriented basically through feelings and intuitions. Obviously, until now, it works well and with the experience of NW, we can guess that they know what they do. But according with the foreseeable future of NW to become a bigger company with a corporate culture more complex and more compounded for new “to be acquired sub cultures”, the need to address this process will be one of high priority. Otherwise, the lack of such empirical evidence offered by models described previously only supports further the preliminary stages of most company’s cultural audits. In addition, the next steps of the cultural audit (p. 34) won’t be figured out. Besides,
it is a way to involve the entire employee in the heart of the M&A process. In summary, despite of its limitations, NW has based its current operation in the extensive experience gained by previous mergers, the point is when and how it would be insufficient.
Chapter 5: Conclusion

5.1. Introduction

In the attempt to summarize and brought up from this study the main findings and relevant insights gained throughout the overall research process, we would like to try to develop a general idea about the most important conclusions. For our academic colleagues this represents an opportunity to get in touch with the particular context of our case study in relation with our theoretical dimensions, which structured and guided us together with our research question to achieve our objectives and results.

Through this thesis project, we faced different situations that we didn’t plan. Actually, the specificity of each M&A involved each times different sources of information. Obviously, we attempted to focus on the research question as “a guiding thread”. Eventually, we had to adapt ourselves with the limited information access and also, with the case studied. As in the business world where the theory is not all, we performed an adjustment of our research within the reality.

5.2. Research Question

“According to the essential strategic elements of Human Resources management, what defines the integration achievement in a M&A process from an organizational level perspective?”

To answer this question, we used literature review and concrete research on the field. Thanks to the structuring of our research plan and the data collected by the interviews, we managed satisfactory to answer it. As far as it could be done, a general identification of the integration achievement in a M&A could be recognized. This Integration definition as part of the one of the most important goals of Human Resources strategies in the M&A was delineated through the elements by which Human resources tactics can be performed. Our conclusion is not an absolute universal truth and it doesn’t pretend to be, allowing like this to keep aware of the multiple approaches to define the integration achievement.

Each Mergers and Acquisitions is unique therefore, it is complicated to give a perfect definition or success recipe of how to do well. Besides, human perspective is not an exact science and it is difficult to elaborate universal rules. Otherwise, what really represent the most important
arguments is how to conduct an integration process concerning the available opportunities and even weaknesses that companies present like in our case study.

5.2.1. Pre stage of M&A process

The pre-phase before the M&A is a key to launch the process since it will determine how and what actions to develop after the deal signing. This process has to be very well prepared. We highlighted the due diligence as an important factor for the buyer company to get to know the acquired company in an integral way. In the experience of many firms on M&A, this has been an important input for theorists to define the beginning of a good merger process. Anyway these actions are influenced by the company economical status, size and dimensions, resources available and the timing in which the acquirer company plan to consolidate the deal.

The financial figures are one thing but other components are also determinants to cope with it. The corporate culture is one element that should be understood deeply to see if both firms can match and avoid clashes. This in terms of work philosophy and the willingness for changes, since the following steps would be to realize processes restructures and inserting modifications that have to be in accordance with the acquired labour force possibilities. Certainly, one of the main risks obtained from weaknesses in this process is the development of a wrong view of the acquired company capabilities, in terms of its people willingness to cooperate with the change and the acceptance of the new merged entity status and identity. The good faith in planning and investment is not enough to warranty the flow of the merger if the people are not supportive and responsive. In these conditions, the communication and right interpretation is the key of this phase. Obviously, in some cases, it is impossible to have this close collaboration between companies since most of the time information interchange would be influenced by what the people want to see or “sell”. That is why it’s important to count with others external sources of information possible in order to confirm and evaluate what it has been collected.

During the same phase, it will be quite determinant the position of the companies concerning dominancy and levels of dependency. It will influence all of the process from the bargaining to the final integration. As it will be said after, the relationship between the both companies will have a strong impact in terms of acquisition and further management actions and decision making. Moreover, this first stage provides the foundation for what Human Resources strategy will be. Once the company has learnt the conditions and capabilities of the acquired
company, it would be the start point for designing and planning the consequent and needed improvements concerning human capital management, to reach efficiency and to direct the merger objectives. The shape and formality of human resources policies and attention would be oriented by the awareness and conception the acquired company presents in its corporate mindsets.

5.2.2. Leadership and Communication

The leadership style is another crucial element in the process. In the case of New Wave Group and its CEO Mr. Jansson, we can see importance of the leadership and its influence. His distinctive management style brings a determinant element in the way is managed the M&A. Being an accessible person open-minded and highly conscious about his employees, is a strong factor in the integration process. We have learnt that in most of the cases, an acquisition is followed by a necessary reorganization in the structures, even the consideration of some lay-off and substitution of important position as in the case of CEO.

The experience observed in the case study shows the importance in finding direct and easy communicational channels that allow the overall labour force to stay in touch and updated about all the changes to be introduced in the company the quicker is done, the better is the acceptance of them. At this level we can pinpoint the special participation of leadership in the task of developing capabilities to integrate systems and people, fitting the overall group of competences that the organization look for after the merger. Even more, when the target of attention regarding merger objectives is about production and the improvement of efficiencies in design, manufacture, delivery and distribution, as it is in the case of NW and Orrefors KB.

Therefore, through the M&A we saw the importance of the communication as a tacit element in each step of the process. It represents an important factor of success in terms of motivation and commitment. Concerning the building of this strong assesses needed to support the process in long term, we can mention the need of visualizing integration as a form to create the overall human mindset scene, that even when doesn’t conform a material competence that can be measured and quantified as an acquired advantage, it provides the environmental conditions in which the real tangible objectives wished by the company, can be reached for example the increase in the productivity and performance.
The case studied illustrates perfectly this tendency of clearer management. Communication regards as a strong mean to transmit where the company is running and what objectives are settled, this offer a sense of guidance and future that encourage and become a very good element of motivation for employees. With this scheme, people can feel good and besides, they can trust in managers. A good way to avoid barriers between middle manager, top managers and blue-collar worker is, obviously, to have a flat organizational structure but also a good “team spirit” inside the company. It involves a high degree of integrity and humbleness from everybody.

To understand the achievement of motivation and commitment is to understand what the company as a social structure has in its balance of assets and strength. Mergers often involve the need for decreasing costs; therefore to take in account traditional incentives as raise in salaries or special bones, are not specially the best alternatives. The company has to be aware of the need to encourage the sense of participation and identity that employees (most from those who have spend a long time in the company), can develop. This would certainly be the strongest of the competences that the company in the transition can creates. Also is very important to understand who are the key employees inside the company those who directly provide the value of products created by the company. Obviously everybody provide a participation directly or indirectly in the overall company process, but in a case like Orrefors Kosta Boda, is important to pay special attention to that group of designers and artists that certainly give birth to what represents the company, art, quality and tradition. The limits of their performance are especially important so, the risk of not abusing of their capabilities can be controlled.

5.2.3. Audit and Post-Merger process and evaluation

A udit and post-merger is important to measure the efficiency of the process. Obviously, it doesn’t allow manager to motivate people with an audit. Nevertheless, different tools give the opportunity to see a potential future problem. In deed, this stage is what enforces the performance in the implementation process of the M&A strategy. Unfortunately, some companies (like New Wave Group) don’t judge useful to make an audit after the acquisitions. It is possible to do it later in the process. Generally speaking, by a cultural audit, firms examine and compare the values and behaviours that make up the corporate organisation competitiveness and synergies reached. Especially in this globalize world, the culture and corporate culture play a big role at the end of the M&A more in those conforming international arenas. There are a lot of mergers failed just because of cultural clash. Therefore, measuring the integration of employees and check if everything is all
right is important to reach the success. In the case of national mergers anyway the possibility of cultural clash can be present. Concerning the core business type of the companies involved many differences can raised that if not addressed in the appropriate way a sense of lost identity and even resistance to change can be formed.

In our case study is easily recognizable the differences between business conceptions of both companies. New Wave Group is characterized to be a high rate growing company that its basic and essential corporate strategy is establish important synergies and economies of scale through the acquisition of strong brands in different markets. Evidently its main purpose should be regarded to the composition of strong financial returns of investments from which it can sustains and obtain capital for more acquisition investments. In the other hand, even when conforming a organizational structure with obvious and necessary lucrative profits, Orrefors Kosta Boda is defined to be more a organization leaded by its own sense of art, design and part of the Swedish heritage culture. This last elements is what comprises the guide by which the company wishes to remain of course under the right management of professional that can be capable to judge the initiatives of the firm as a business unit, protecting the important and at the same time delicate feature of its artistic values and reputation.

5.2.4. Comments

In the exposed terms and conclusions we are able to say that it doesn’t exist a “miracle formula” to lead to success. We tried to describe the best possible the most relevant factors, according to the human perspective, that influence the process. At the end, we don’t have to forget that companies are profit-making firms. It is obvious that the first goal for companies is to be lucrative and financially competent. Hence, how can be considered the importance of the employee satisfaction for managers today? What we can certainly say is that, avoiding employee’s dissatisfaction and corrosive differences within the company is also indirectly profitable. Even more in some cases, firms with high presence of sceptical human resources standpoint, fall in bankruptcy ignoring its real background cause, the inability to understand the Human Resources importance.

Once we have gone through the conclusion of the major factors selected to address human resources transition in a M&A process, we would like to extend the insights gained from this study through a reflection about the special circumstances that dominant positions of acquired
company deliver to the shape of the process. We consider this aspect especially important due that it is the foundations of all the alternatives at the moment of select the best M&A strategy choices.

5.3. “The big saviour to the rescue”

For centuries, through the history of the world many examples show this universal rule of the dominant position of saviours over rescuers. Acknowledging into the political scene, one of the best illustrations is the role played by richest states over the third-world countries. These countries are characterised by common elements, such as poverty, high birth-rates, and economic dependence on the advanced countries.\(^\text{76}\) The notion of dependency is the most relevant characteristic to explain this situation of inferiority of several countries. Apparently, the dominant countries try to do their best to help citizens of these poor countries. But in reality, they find also a lot of advantages from their deficiencies (eg: undervalued, unprotected and cheap resources). The aim of this small reflection is to show that the concept of “rescuer-rescued” exists everywhere in the world, and it is not exclusively in the business area additionally, is not about a mere benevolent action. Everybody and every company acts by the chase of their own welfare. Furthermore it seems very conveniently for this reflection to present this comparison to the political scene between countries given that between companies, the rescue process is in fact about political forces confronting from each company position. Therefore, diplomatic channels and negotiations is what conduct the main characteristic of this subject.

An interesting outcome from the analyse case is the importance in the business world, but also in the life, of the position of each players. Obviously, a dominant position of a company confers a lot. In the other hand, a contrario, the weak player, who is not in the best conditions for contesting a negotiation present the most difficult role. The following figure illustrates the different kinds of relationship possible between companies during the Mergers & Acquisition process:

![Figure 5: Source: Price Pritchett, After the Merger: The Authoritative Guide for Integration Success (1997)](image)

According to Price Pritchett, the rescue category corresponds with the presence of a high level cooperation as the basic principle between both companies. The acquired company has to accept all the requirements of the rescuer and develop a sense of willingness and cooperation. According to the author, in the point of view of the personnel in the rescued company, they show an almost immediate transition from a sense of relief once the financial future of the company relies in the strong position of the acquired, to a one of caution. Usually, in this rescue operation, few members of the existing management team may be asked to leave. This is what we saw in the case studied. Naturally, there is fear in the hearts of some executives when it becomes obvious that some of them are losing their job. The only opportunity that employees have is “accept the new rules or leave”.

The position of the “white knight” gives a lot of advantages concerning leadership and management. Once a sense of fraternity has been transmitted, then the following consequence is the mere acceptance of sacrifice for the sake of the “brotherhood”. The resistance is very delicate and an edgy component vulnerable to be brake and, even if it is not completely fair, decisions have to be respected and followed.\[77\]

In other hand, rescuers can suffer many detriments; it is obvious that they are exposed to a lot of risks. To take over a company in bad financially balance is never easy. People in the acquired organization need help in rebuilding their corporate self-esteem. Their pride needs to be restored and their motivation regenerated. Besides, the feeling of uncertainty doesn’t help. It explains the difficulties of the operation for the buyer. Even when he considers the acquisition to be a very good deal concerning price, the after acquisition investment can represent a trap if not studied carefully.

5.4. Research method used

Every investigation and its concerning conditions allows to obtain many different kids of outcomes, therefore each investigation even when not considering highly revealing or completely exploratory areas, always will provide interesting details and aspects moulded by its own

circumstances. Therefore, the importance of each investigation regards its structure, perspective and interest to tackle a determined object or reality in study.

For the present investigation as we have said before, it has been considered to be framed into a growing and very well know topic as it is M&A, different studies and perspectives can be found offering interesting and worthy inputs to the field. In this case, our main focus into this subject was concerning human capital issues, considered a special aspect of the whole spectrum of processes developed in a M&A process. Our formation as managers built our frame of references as researchers, and have gave us the insights into the management discipline, allowing us to focus our attention to those managerial issues that interfere in such relevant and determinant area, as human resources management is.

The conditions and features that have framed this study allowed us to structure and built the research method as the necessary guide to orientate our actions and efforts as researchers. Unquestionably, the opportunity to access a case study represents the major feature of the study, since our own interest in current and real issues became the principal motif to address the investigation into the reality of this case. New Wave Group and Kosta Boda M&A process, recreated a very interesting source of information that let us know how is currently developed a merger process in the environment and conditions surrounding Swedish companies.

Nevertheless, is clear that concerning the development of the study other means could have been equally valid and practical when it comes to speak about results and findings. And this is a very important issue to present, since every researcher has to be aware of its possibilities regarding findings and the means to achieve them.

A pure bibliographical research could have brought us to different results, using the current secondary data information available could have let us understand what are the main general and broad trends developed by companies in the same needs to consolidate, grow and establish themselves inside the competitive arena of markets and industries.

A more comparative analysis would have compound the main interpretations and arguments, since the stories and events of some important cases of the entrepreneurial scene, is what would have established as the foundation for the discussions and studies.
Moreover without going so far, remaining into the case study research method, different variations of research process could have been developed. With other conditions, like availability of time, resources, access to people, etc, a variant in relation with the collection of data would have been a noticeable difference. For the purposes of the thesis, concerning the managerial choices that the responsible in New Wave and Orrefors Kosta Boda to develop a satisfactory transition process and to reach integration, it could have been interesting to apply a survey in a sample of employees in order to take directly from them, the overall appreciation of the merger process and how they feel directly affected by the changes and the choices managers have launched in order to cope with the transition. Like this, a multiple perspective could have been gained for the analysis.

As Yin\textsuperscript{78} sustaining the way research questions are stated, represents a strong sign about how the research design has to be drawn. He presents his arguments in a box illustration connecting the research word with the most suitable research strategy. For questions as “What” like in our case, the most fitting research design would be conducting the study to develop an exploratory investigation. Analysing the causal elements that give the form and current situation of the object in study into the reality of the case study, is what comprises the overall findings. Moreover, when the perspective of the investigation regards the historical happening of the events as in our case, a combination with the history and narrative style of inquiry complements the research structure. Like this we can summarize the intention of our research within the current conditions, it presents features of descriptive and illustrative view, as well with some relevant component that grant it with a shade of exploratory research, but even thought the last one doesn’t represent the overall outcome of this study.

5.5. Future research

Certainly, the structure and results of this thesis would compound and initial stimulation for those who will be the following thesis master researches, bringing the possibilities to offer insights concerning the M&A investigation field if it represents a main interest for their own studies. Also this master thesis can be considered as a significant input concerning methodological procedures, allowing introducing some beginner researchers to obtain an idea about what compounds a formal process to deliver master thesis.

From the results obtained in this investigation and regarding the case study involved, it should be suggested to develop an investigation where the cultural audit represents the object of study for New Wave Group. We have acknowledged that in its current conditions its doesn’t seem to represent such a primordial need, but concerning its pace of growth and expansion overseas, the next step should be emphasising cultural issues and possible clashes. We have questioned in relation to this case, what is the real concern of managers relating the employee’s satisfaction, and moreover in which terms they can grant more attention to this area without falling in excessive and in some way naive apprehensions. Due that any process related with investigation inside the company represent investment in time, efforts and attention, is necessary to develop a study in which the factors that increase cultural audits importance can be identified and also the intensity and effect in the overall wellness of the company in the present and future term.

Moreover in the conditions of the results reached by this study, should be helpful and complementary to develop a different kind of research strategy for example, concerning the use of surveys to the employees to reach another perspective of the situation. Like this other human resources soft issues can be obtained, like the level of acceptance and resistance to change of the M&A process. This would compound a very interesting and useful comparative model of research.
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Landgren, Mattias by authors, Orrefors, Sweden, May 16, 2006.
### Annexes

**Annexe 1: Illustration of the healthy accounting of the New Wave Group**

#### Income Statements

<table>
<thead>
<tr>
<th></th>
<th>3 Months 2005</th>
<th>3 Month 2004</th>
<th>12 Month 2004</th>
<th>12 Month 2003</th>
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<tr>
<td><strong>SEK m.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td>516.5</td>
<td>468.8</td>
<td>2 392.2</td>
<td>1 881.9</td>
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<tr>
<td><strong>Other income</strong></td>
<td>2.6</td>
<td>3.1</td>
<td>20.0</td>
<td>135.7</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods for resale</td>
<td>-288.6</td>
<td>-256.7</td>
<td>-1 246.4</td>
<td>-1 047.2</td>
</tr>
<tr>
<td>Other external expenses</td>
<td>-122.0</td>
<td>-105.5</td>
<td>-440.2</td>
<td>-335.1</td>
</tr>
<tr>
<td>Personel costs</td>
<td>-95.8</td>
<td>-76.8</td>
<td>-341.1</td>
<td>-263.9</td>
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<tr>
<td>Deprecation of tangible and intangible fixed assets</td>
<td>-7.4</td>
<td>-7.5</td>
<td>-29.6</td>
<td>-23.6</td>
</tr>
<tr>
<td>Other expenses</td>
<td>-1.3</td>
<td>0.0</td>
<td>-2.5</td>
<td>-4.5</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>0.0</td>
<td>23.4</td>
<td>262.4</td>
<td>221.1</td>
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<tr>
<td><strong>Net financial items</strong></td>
<td>-8.5</td>
<td>-5.8</td>
<td>-28.2</td>
<td>-23.8</td>
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<tr>
<td><strong>Profit after financial items</strong></td>
<td>-8.5</td>
<td>17.8</td>
<td>234.2</td>
<td>197.3</td>
</tr>
<tr>
<td><strong>Tax on the profit for the period</strong></td>
<td>1.3</td>
<td>-4.3</td>
<td>-61.3</td>
<td>-46.5</td>
</tr>
<tr>
<td><strong>Profit/loss for the period</strong></td>
<td>-7.2</td>
<td>13.3</td>
<td>172.9</td>
<td>150.8</td>
</tr>
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</table>

#### Profit per share

- Profit per share before dilution: -0.23, 0.45, 5.60, 5.10
- Weighed number of shares before dilution: 31 832 674, 29 580 424, 30 981 493, 29 580 424
- Weighed number of shares after dilution: 32 051 411, 30 861 550, 30 919 495, 29 698 378

* Annan valutasalter och realisationsintära.
## Cash Flow Analysis

<table>
<thead>
<tr>
<th></th>
<th>1 Jan -</th>
<th>1 Jan -</th>
<th>1 Jan -</th>
<th>1 Jan -</th>
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<tr>
<td></td>
<td>31 Mar</td>
<td>31 Mar</td>
<td>31 Dec</td>
<td>31 Dec</td>
<td>31 Dec</td>
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<td><strong>Current operation</strong></td>
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<tr>
<td>Profit/loss before financial items</td>
<td>0.0</td>
<td>19.0</td>
<td>242.4</td>
<td>205.1</td>
<td>179.3</td>
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<td><strong>Items not included in cash flow</strong></td>
<td></td>
<td></td>
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<tr>
<td>Change in pension allocations</td>
<td>-</td>
<td>-</td>
<td>0.4</td>
<td>0.2</td>
<td>-</td>
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<tr>
<td>Translation difference</td>
<td>-1.8</td>
<td>-0.6</td>
<td>0.1</td>
<td>1.4</td>
<td>-0.1</td>
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<td>Depreciations</td>
<td>7.4</td>
<td>11.9</td>
<td>49.7</td>
<td>39.6</td>
<td>36.7</td>
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<tr>
<td>Capital gain from fixed assets</td>
<td>-</td>
<td>-</td>
<td>-1.8</td>
<td>-1.1</td>
<td>-</td>
</tr>
<tr>
<td>Gained interest</td>
<td>5.2</td>
<td>1.6</td>
<td>4.4</td>
<td>2.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Paid interest</td>
<td>-13.7</td>
<td>-7.4</td>
<td>-32.6</td>
<td>-25.5</td>
<td>-25.2</td>
</tr>
<tr>
<td>Paid income tax</td>
<td>-18.7</td>
<td>-24.0</td>
<td>-72.6</td>
<td>-47.7</td>
<td>-41.0</td>
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<tr>
<td><strong>Cash flow from current operations before changes in working capital</strong></td>
<td>-21.6</td>
<td>0.5</td>
<td>190.0</td>
<td>173.7</td>
<td>140.8</td>
</tr>
<tr>
<td><strong>Changes in working capital</strong></td>
<td>-27.4</td>
<td>-45.8</td>
<td>-187.7</td>
<td>-97.7</td>
<td>19.9</td>
</tr>
<tr>
<td><strong>Cash flow after changes in working capital</strong></td>
<td>-49.0</td>
<td>-45.3</td>
<td>2.3</td>
<td>76.0</td>
<td>160.7</td>
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<tr>
<td>Subsidiary acquisitions*</td>
<td>-</td>
<td>-31.9</td>
<td>-175.6</td>
<td>-7.1</td>
<td>-111.4</td>
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<tr>
<td>Investments in fixed assets</td>
<td>-45.4</td>
<td>-22.0</td>
<td>-70.7</td>
<td>-79.1</td>
<td>-41.6</td>
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<tr>
<td>Net sales of fixed assets</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
<td>4.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Amortization long-term claim</td>
<td>1.7</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
<td>0.4</td>
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<tr>
<td><strong>Cash flow from investments</strong></td>
<td>-43.7</td>
<td>-53.9</td>
<td>-245.4</td>
<td>-79.9</td>
<td>-153.2</td>
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<tr>
<td>Amortization intangible fordan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.4</td>
</tr>
<tr>
<td>Raised loans</td>
<td>81.6</td>
<td>124.4</td>
<td>191.7</td>
<td>38.5</td>
<td>16.3</td>
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<tr>
<td>New issue</td>
<td>-</td>
<td>-</td>
<td>149.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Paid dividend</td>
<td>-</td>
<td>-</td>
<td>-36.3</td>
<td>-25.4</td>
<td>-21.8</td>
</tr>
<tr>
<td>Cash flow from financing</td>
<td>81.6</td>
<td>124.4</td>
<td>305.1</td>
<td>13.1</td>
<td>-5.1</td>
</tr>
<tr>
<td><strong>Cash flow for the year</strong></td>
<td>-11.1</td>
<td>25.2</td>
<td>62.0</td>
<td>9.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Liquid funds at the beginning of the year</td>
<td>84.1</td>
<td>219.0</td>
<td>219.0</td>
<td>14.2</td>
<td>12.1</td>
</tr>
<tr>
<td>Rate difference in liquid funds</td>
<td>1.8</td>
<td>0.6</td>
<td>0.2</td>
<td>-1.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Liquid funds at the end of the year</td>
<td>74.8</td>
<td>47.7</td>
<td>84.1</td>
<td>22.0</td>
<td>14.2</td>
</tr>
</tbody>
</table>

*The item includes:

- **Goodwill**
- **Working capital**
- **Fixed assets**
- **Transferred loans**

**Effect on the cash flow**

|                           | 0.0     | -31.9   | -135.6  | -7.1    | -111.4  |

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Annexe 2:
Organizational structure of Kosta Boda Group before the M&A:

Organisational structure

CEO
Håkan Cöster

Business Area
Orrefors
Oyvind Saetre

Designers
Hans Ljungdahl

Product development

Product responsibility

Business Area
Kosta Boda
Per Qvarfordt

Designers

Product development

Product responsibility

Sales Export
Peter Malmström

Operations
Thomas Idemark

Production

Technique

Logistics

Quality control

Subsidiaries

- SEA AB
- GLASMA AB
- Royal Scand (U.S.)
- Royal Scand (Norway)
- OPSB (Japan)
- Others

Agents
- RoW

Retail Sales
Göran Ivarsson

Design and product development for the two brands is conducted in two separate business areas.

International sales and marketing is carried out in one sales department. In the Swedish market the two brands have separate sales and marketing units.

Annexe 2 bis: Organizational structure of Kosta Boda Group after the M&A:

Organisational structure

CEO
Håkan Cöster

IT, Finance/controlling, purchasing
Urban Enqvist

Personnel and information
Germund Johansson

Sales Export
Peter Malmström

Operations
Thomas Idemark

Subsidiaries

- USA
- China
- Europe
- SEA

Agents
- RoW

Retail Sales
Göran Ivarsson

Design and product development for the two brands is conducted in two separate business areas.

International sales and marketing is carried out in one sales department. In the Swedish market the two brands have separate sales and marketing units.
Annexe 3: Orrefors KostaBoda MO SM 2006-2009

<table>
<thead>
<tr>
<th>Mission</th>
<th>Objectives</th>
<th>Strategies</th>
<th>Measures</th>
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<tbody>
<tr>
<td><strong>Strategic</strong>&lt;br&gt;1 Build the OKB brands as the No.1 Gift in retail and profile.&lt;br&gt;2 Three year NPD Pipeline With strategic and tactical Launches for profile and retail.&lt;br&gt;3 Roll out via NWG companies in Europe and Asia.&lt;br&gt;4 Become 15% more efficient regarding sourcing on annual base.&lt;br&gt;5 Build the OKB team spirit.</td>
<td><strong>1.1 Positioning OKB as a &quot;Premium gift company&quot;</strong>&lt;br&gt;<strong>1.2</strong> New sales programme focus on place and impact in store.&lt;br&gt;<strong>1.3</strong> New price structure with different service package ABCD for profile.&lt;br&gt;<strong>1.4</strong> Evaluate new distribution channels f.e furniture shops.&lt;br&gt;<strong>2.1</strong> Assortment council for more market input.&lt;br&gt;<strong>2.2</strong> Unique designed profile assortment.&lt;br&gt;<strong>2.3</strong> Unique designed gift concept.&lt;br&gt;<strong>2.4</strong> Add seasonal assortment.&lt;br&gt;<strong>2.5</strong> Establish cooperation with external brands focus on cross promotions.&lt;br&gt;<strong>3.1</strong> Roll out Fase 1.2.3&lt;br&gt;<strong>3.2</strong> Roll out franchise concept.&lt;br&gt;<strong>3.3</strong> Special focus on China and Russia.&lt;br&gt;<strong>3.4</strong> Other NWG markets.&lt;br&gt;<strong>4.1</strong> Optimise number of suppliers.&lt;br&gt;<strong>4.2</strong> Closer cooperation with NWG China/SFAB supplier.&lt;br&gt;<strong>4.3</strong> Optimise QC. OKB brand must guarantee quality.&lt;br&gt;<strong>4.4</strong> European warehouse.&lt;br&gt;<strong>5.1</strong> Train our staff to be able to grow with OKB.&lt;br&gt;<strong>5.2</strong> To have the &quot;right people on the bus&quot;</td>
<td>Overall&lt;br&gt;Turnover 05: 620 mio&lt;br&gt;Turnover 06: 660 mio</td>
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Annexe 4: The historic of the main events of the transition

- 1 of June 2005: NW was the owner of 49% of Kosta Boda;
- 14 of June 2005: The new CEO, Magnus Andersson, from NW, took his position within the Kosta Boda company;
- 20 of June 2005: With the unhealthy economy of Kosta Boda Group, NW had no other choice to fire 67 employees (basically middle managers) but after negotiation, it was 59 persons. In this reorganization, there were no artists or glass workers fired. It was essentially an operative and production conception about the company;
- 4 of October 2005: 100% of NW
Annexe 5: Questionnaire of the Interview (17th of April 2006) with the Manager Press & PR

INTERVIEW MODEL FOR KOSTA BODA COMPANY:

Name of the Interviewed: __________________________________________________
Position in the company: ___________________________________________________
Seniority in the Position: ________________

Relation between M&A strategies and Human resources strategies:

1. Which kind of potential synergies and principal advantages were identified by Kosta Boda
   in order to proceed with the Acquisition?
2. Which kind of objectives were attempted to reach by Kosta Boda with this M&A?
3. In your own words, what is basically the Kosta Boda Corporate Culture?
4. How was the business situation of Kosta Boda before the acquisition? Good result/ Bad
   result?
5. How is visualized by Kosta Boda the integration process with the New Wave Group? In
   which terms?
6. What do you consider is the basic competitive advantage brought by the merger process?
7. In which way the company has envisioned and planned the potential cultural clash between
   the two corporations?
8. Weren’t you afraid to lose your old and traditional identity with this collaboration with a
   new investment company?

Elements of the Human Resources Strategies: Transition process

1. How could you describe Kosta Boda Identity?
2. How Kosta Boda transmits and enforces its identity? By which means?
3. In the transition of the merger process, what have been the principal actions that Kosta
   Boda has performed to keep its Identity and essence in products and performance?
4. How is the level of importance that Kosta Boda gives to Leadership and communication?
5. Which means are used to create effective communication?
6. How is the cultural exchange between the both companies? It was a one way
   communication from NW or Kosta Boda transmits also their willingness?
7. Concretely, what is the role of Mr. Magnus Andersson (Managing Director in New Wave
   Group’s subsidiary)?
8. How Kosta Boda keep motivated its people? Is this considered a strategic area? Why?
   Which instruments are used to reach this goal?
9. How Kosta Boda creates commitment among its employees? By which means? How can
   you measure the level of commitment of its people?
10. The reorganization and the reduction of 67 employees didn’t effect the commitment? How
    was the communication of NW to justify that? (cfr. article)
11. Mention some of the principal process that the company applies in order to increase and
    maintain communication, motivation and commitment active.

Audit and Post-Merger process and evaluation:

1. Since the beginning of the process did you make some check up to control the results?
   How? Which instruments used? There are 2 different criteria:
   - Figures, orders increasing;
   - Satisfaction of employees, problem inside the company.
2. What are the differences between the objectives before the M&A process and the reality accomplished?
3. The changes are never easy. Nobody likes change! After 1 year, could you say that you’re satisfied with this M&A?
4. If you could change something in this M&A, what would you like to modify?
5. Could you tell us the level of independency in decision making and the operative level between the mother company and the acquired one?
6. According to the previous question, how is the collaboration between the both companies?

Annexe 5: Questionnaire of the Interview (17\textsuperscript{th} of April 2006) with the Manager Press & PR and the manager of Human Department.

**INTERVIEW QUESTIONNAIRE: 20\textsuperscript{th} OF APRIL 2006**

1. **Preparation**
   - Did New Wave have a model to develop the steps of the acquisition?
   - Are these guidelines applied the same way in each case? Which adaptations were made in the case of Kosta Boda?

2. **Implementation process**
   2.1. R.E.X.:
   - Who is the people involved?
   - Who launch this process?
   - From when?
   - Some results are already visible?
   - When the company identifies positive results, how it rewards people to keep the performance?
   - How can you control the result? Which tools are possible to realize? Who make this control?

   2.2. Besides of the REX process which other experience in terms of management New Wave has transmitted to Kosta Boda?

   2.3. How New wave creates commitment among the employees? By which means?

3. **Audit and post merger processes**
   - As part of controls and check up is the employees’ satisfaction a part of it? And How?
   - Are there differences between the planned objectives and the reality accomplished so far? (not only financially)
Annexe 6: Questionnaire of the Interview (16th of May 2006) with the General Hotel Manager of New Wave Group.

**INTERVIEW QUESTIONNAIRE: 16th Of May 2006**

Pre stage of M&A. Overall strategy and relation with Human Resources:

1. What were the main reasons for New Wave to choose Orrefors KB?
2. What has been the most relevant actions oriented to secure and warranty the proper acquisition process? Did you perform a Due diligence process?
3. Is there any fixed model or plan that New Wave has built in order to acquire a Company?
4. What are the main objectives that the company intends to reach with this acquisition? How have been it achievement so far?

Elements of the Human Resources Strategies.

5. Which were the main modifications necessary in order to consolidate a new integrated corporate structure?
6. How was managed the introduction of new visions and way of doing things to the whole labor force?
7. By which means was envisioned to remain and enforce New Wave identity and culture?
8. How do you think people get motivated and enthusiastic by the whole acquisition process?

Post merger stage: Audits and checks.

9. How New Wave has managed to keep control of the company performance in accordance with the initial objectives?
10. Did you develop a cultural audit to measure the efficiency of the M&A? If not, it is just the case for Kosta Boda Group or do you apply always the same strategy for each company bought?
11. How the company manage to measure the employees satisfaction?

Annexes 7: Press article (sources: www.nwg.se)

*Orrefors Kosta Boda AB gives notice regarding 67 employees*

Orrefors Kosta Boda AB today gives notice to the county labour boards of Kalmar County and Kronoberg County about its intention to execute a large reorganisation. The planned reorganisation means inter alia a reduction of 67 employees, most of which are salaried employees. The reorganisation is an included part in a wider cost reduction plan. The Managing Director of the company, Magnus Andersson, says that he hope that the negative effects of the reorganisation will be reduced by the New Wave Group of companies, to which Orrefors Kosta Boda AB belongs, extensive investments within “Glasriket”, with inter alia the establishment of new businesses in the region. Furthermore Magnus Andersson says that the planned measures to be taken are absolutely necessary for the company to once again be profitable and there through secure the employments for the remaining employees within Orrefors Kosta Boda AB.