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The Rationale Behind Cross-border Mergers & Acquisitions

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1. Abstract

Our paper aims to explore the rationale behind using cross-border mergers and acquisitions (M&As) as an entry mode to foreign markets. The result of our research showed that there is a gap between theories behind M&As as a market entry mode, and why company executives choose M&As. The reasons according to company executives for choosing M&As are that it is a quick way to enter a new, foreign market. It can also be a way to precede competitors, especially in rapidly globalizing markets as well as providing an already existing profit stream.

The M&A process in practice seems to be lacking a step consisting of choosing entry mode, or at least this is not a step following identification of a market. In general, executives do consider cross-border M&As to be a successful means in their internationalization process. Additionally, there is a discrepancy in how M&As are evaluated. Executives more optimistic picture is attributable to the fact that they use M&As as a long-term means. Researchers are less positive about the success rate but uses short-term measurements for evaluation. The executives agreed with each other on both the success rate of M&As and the measurements used to evaluate them.

We used a combination of multi-case study and qualitative interview in our research. We interviewed people from companies in different types of industries. All respondents were responsible for decision-making regarding mergers and acquisitions.

2. Introduction

International business is an important area to be familiar with in order to maintain competitiveness in an increasingly globalized world. Among the most important decisions regarding international strategy is the question of which entry mode to choose for expansions into new market. There are several modes available, for instance mergers and acquisitions (M&As). According to Krishnamurti & Vishwanath (2008), the definition of an acquisition is that one company buys either a division or a large share of another company.

Each mode has its advantages and disadvantages. Consequently, they are appropriate for different situations. Cross-border M&As are very common and are still growing in popularity. There are several factors to why this is happening. The globalization of markets in general, and the European unification in particular has lead to an increased amount of cross-border acquisitions. Research shows that many companies conduct acquisitions abroad as a direct response to globalization. Another reason behind the increasing amount of cross-border M&As is the opportunity to add additional value through economies of scale. Such opportunities may have already been emptied on the home market. In addition, international deregulations and homogenization of customer preferences across markets have affected cross-border M&A activity (Krishnamurti & Vishwanath, 2008).

However, it is almost common knowledge among students that M&As are associated with great risks. According to business literature, the price often turns out to be too high as it is very hard to achieve the predicted synergies (Hill, 2012). When looking at cross-border M&As in specific, there are some practical issues. These problems are attributable to the integration of different organization cultures. In turn, this can lead to high management turnover, which can be very costly for the acquiring company. It can also be difficult to issue shares across national borders. All of these aspects pose the question of why M&As are such a popular strategy for managers today (Hill, 2012).

In conclusion, it is certain that cross-border M&As as a form of foreign direct investments (FDI) have come to fundamentally change the international business environment.

3. Background

Companies' ability to acquire assets in new markets has increased substantially. The establishment of common accounting standards and shareholding systems as well as the liberalization of ownership restrictions and foreign entry facilitates this. As a result, the trend of cross-border M&As as a preferred entry mode has increased which has lead to a boom in FDI (Gilroy & Lukas, 2006).

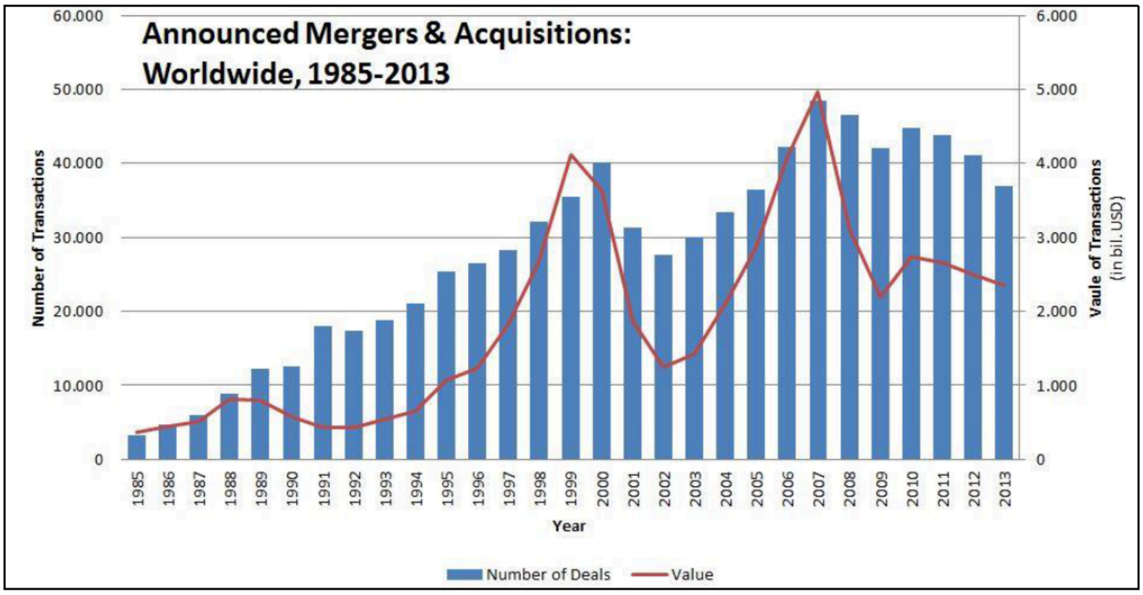

Figure 1: Announced Mergers & Acquisitions: Worldwide, 1985-2013 (IMAA, 2013)

M&As are increasing substantially and both bigger and smaller scale deals are continuously announced, which can be seen in the graph above. Many companies are selling assets leading to others taking the opportunity to acquire or merge. Some financiers mean that a driving force for companies to implement M&As as a strategy is their mentality. Some firms that have had a very closed mentality for several years are now deciding that it is time for them to open up and look around for other options. As a result, they will turn to M&As since there is a suppressed demand for firms to utilize acquisitions now that companies are in better shape.

One of the sectors with the highest volume of M&As are the capital intensive oil and gas sectors, which also provides indications of what drives the companies to undergo acquisitions. According to an article in The Financial Times (2012), advisors at Ernst & Young have found capital to be one of the most important factors. This is because it strongly affects the strategic decisions that ultimately have an impact on M&As. Capital is something of great value for all companies and every firm is in a different situation regarding their capital. Some are looking to obtain further finance while others are out to invest or optimize the financial assets they have already gained (Financial Times, 2012).

In the oil and gas industry it is common for smaller companies to struggle to obtain capital whereas larger companies are instead producing an abundance of cash that they seek to redistribute. They are also widely seeking to optimise and lower their costs. These oil giants all have a great deal of cash to spend while smaller firms rather have a shortage of cash. These are all factors leading to takeovers, and are thereby drivers for M&As. After several years of crisis many companies might now start to feel ready to carry through decisions they had previously put off (Financial Times, 2012).

As we go into the second quarter of 2014, M&A announcements have continued in a fast moving pace going up with 21 per cent compared to the same period last year. While the majority have been primarily driven by the US, we have seen important improvements in selected flows in the EU. Particularly, the appetite of buyers in Europe has grown significantly, with 38 per cent compared to last year. It is also notable that they are more in favour of cross-border purchases relative to domestic consolidation (Financial Times Alphaville, 2014).

As pointed out earlier, the trends in cross-border M&As have generally been positive with strongly increasing flows in most markets. Historically, there was a wave of cross-border M&As during the late 1990s with FDI and international production reaching noticeably high levels. Global FDI outflows rose greatly in 1999 when it increased with 16 per cent compared to the year before. Indications that it would rise even more in the next years was fulfilled when it surpassed the one trillion dollar mark within a few years. International production and sales of foreign branches increased faster than global GDP and exports, reaching twice as high levels compared with one twentieth in the beginning of the 1980s.

The driving force behind the strong increase in FDI and the growth in international production during the second half of the 1990s was mostly due to cross-border M&As as the substantial contributor to the total FDI flows. The value of cross-border M&As rose during the 12 years preceding 1999. The majority of M&As are acquisitions, with merely three per cent being classified as mergers (World Investment Report, 2000).

Global FDI flows peaked in 2007, after which it fell due to the financial crisis. During recent years the flows have picked up, however, they remained about below the peak. According to indicators, the value of cross-border M&As fell back in the beginning of 2012 although much suggested that it would catch up during the remaining months. Long-term prospects indicate a moderate but rising trend.

Cross-border M&As are playing a large and important role in the world economy today (World Investment Report, 2012). Thus it is of considerable importance when analysing the global marketplace.

4. Problem discussion

In an increasingly globalized world more companies considering an acquisition will look overseas to facilitate their growth. The recent wave of cross-border M&As flows increased rapidly after 1996 and peaked in 2000 as can be seen in the table below, after which it fell due to a downturn in the economy (Evenett, 2004). However, both consultancies and business media expected cross-border M&As to increase. A survey of 100 chief financial officers of US oil and gas companies made by the accounting and consulting firm BDO, found that more than half predicted a rise in M&As (Financial Times, 2014). Looking at the volume, cross-border M&As have been growing rapidly during the last two decades, leading to a total share of all FDI inflows between 40 and 80 per cent (Hill, 2012).

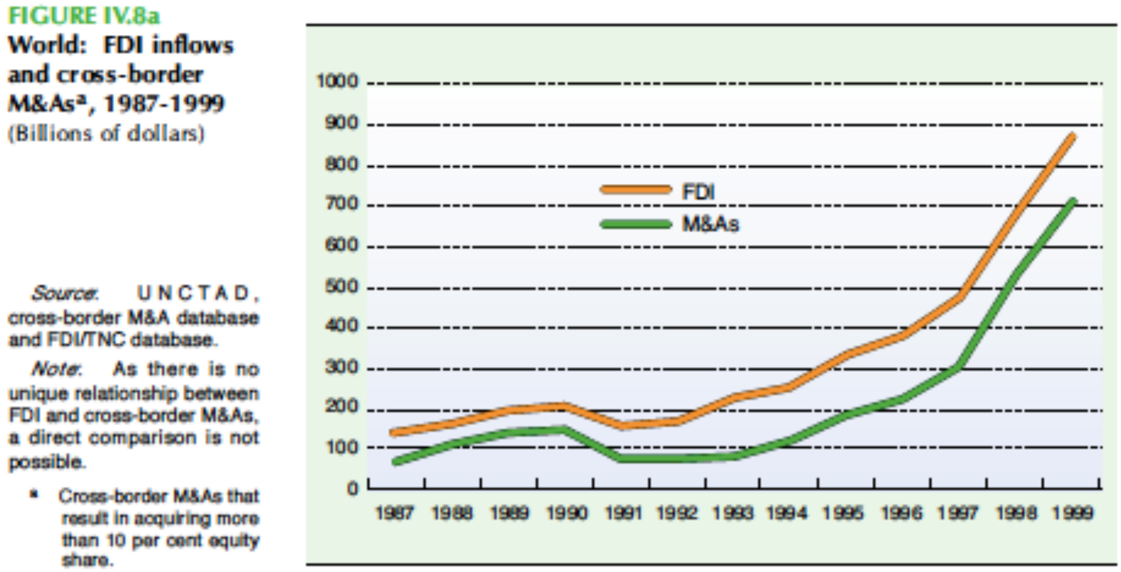

Figure 2: FDI inflows and cross-border M&As, 1987-1999 (World investment report, 2000)

One of the most important decisions an organization can make regarding its international strategy is choosing which entry mode to use when expanding across borders into new markets. Once basic entry decisions such as which foreign market to enter, the timing of the entry and the scale of entry are settled, it is time for the company to decide on the best mode of entry (Hill, 2012).

There are many studies examining the selection of entry mode. However, the majority of them focus on the decision between greenfield investments and acquisitions, equity modes and contractual modes or between joint-ventures and wholly owned subsidiaries.

Today, companies have a wide variety of approaches to choose between, ranging from equity modes such as joint ventures and wholly owned subsidiaries to contractual modes such as licensing and exporting. Each of these modes have its advantages and disadvantages and are suitable for different purposes. This makes the choice of entry strategy crucial for companies (Slangen & Hennart, 2007).

The process of selecting an entry mode involves trade-offs, as there are several advantages and disadvantages with every mode. The decision depends e.g. on the business environment of the market, the pressures for cost reductions, as well as the core competence of the acquiring firm. Whether the core competence lies within technological know-how or management know-how can be vital to the choice of entry mode (Hill, 2012).

The logic behind M&As is attributable to speed, competition and risk. M&As are a quick way to enter a new, foreign market. It can also be a way to precede competitors, especially in rapidly globalizing markets. Lastly, M&As provide an already existing profit stream. Apart from this aspect, the acquiring firm also gains tangible assets such as production facilities, systems for logistics and customers, as well as an established brand and local knowledge (Hill, 2012). It will be interesting to see if this is the rationale in practice as well.

Cross-border M&As has grown rapidly to become a highly popular and important way for companies to expand. However, there are studies showing that the majority of M&As actually fail. For instance, according to Business Week (1995), Mercer Management Consulting conducted a study of 150 acquisitions between 1990 and 1995, all with a total value over $500 million. According to their research, 50 per cent of these acquisitions did not result in any added shareholder value, while an addition 33 per cent resulted only in marginal returns. Most of the research in this field has been conducted on domestic acquisitions, although there is no evidence of this not being true for cross-border M&As as well (Hill, 2012). We want to look into why, even though it seems like it is common that M&As fail, it is still a very popular entry strategy.

5. Research question

What is the rationale behind using cross-border M&As as an entry mode to foreign markets?

6. Purpose

We will write our thesis about cross-border mergers and acquisitions focusing on the initial phase of the M&A process, particularly looking at M&As as a market entry strategy. Why are so many organizations using M&As as an entry strategy rather than going into new markets through other modes? We will in detail investigate the decisions made by companies to acquire a foreign firm and what influenced their decision.

The purpose of this study is to explore the logic behind cross-border M&As from a company perspective, particularly looking at the motives for using M&As as opposed to other entry modes as a means in their internationalization process. Our focus is on decision-making in practice, rather than from a theoretical perspective.

7. Delimitation of the study

Our study has been limited to the first phase of the M&A process, which is choice of market and choice of entry mode. Since we want to have an international perspective on our thesis we only looked at cross-border M&As, thereby excluding domestic M&As. We have chosen to interview companies in different industries like telecom, oil and gas, and transportation. For practical reasons we have conducted interviews with Scandinavian companies only. Further on, the anonymization of the companies in our study did not allow us to give a more detailed description of them.

8. Thesis structure

Our paper starts with an introduction, providing a context for cross-border M&As and briefly introducing the subject to the readers. Following is a background with current trends in M&As and a historical overview of M&As part of FDI. The problem discussion brings up important issues regarding M&As, and ends with our research question. This question is further explained in the purpose of the paper. The delimitation of the study outlines where we have had to make sacrifices in what we talk about in the paper. The theory is a description of what we considered to be important knowledge in order to answer our research question. This chapter explains theories such as Dunning's eclectic paradigm, the transaction cost theory, decision theory. Chapter 10 is a review of what business literature says about i.e. objectives behind M&As, risks associated with it, and problems arising when entering new markets. In chapter 11 we describe the method we have used for our research. Accordingly, chapter 12 is about the results from our interviews. An analysis follows where we compare theories with our results. In Conclusion we answer our research question. The last chapter in our paper is a list of our references. In addition, we have an appendix with our interview guide.

9. Theory

There are several theories explaining why companies would want to expand their operations internationally. For instance Dunning's eclectic paradigm (the OLI-model) and the transaction cost theory. These, along with the other theories we have included in our paper, could explain why mergers and acquisitions exist.

9.1 OLI

The OLI-model, or eclectic paradigm as it is also called, developed by Dunning in 1980, was evolved as a way to merge various theories within international economy into one concept. OLI is an acronym that stands for *Ownership advantages*, *Location advantages* and *Internalization advantages*. It is more considered as a general organising framework rather than a theory. The model describes how multinational companies each hold firm-specific competitive advantages facing their rivals. According to Dunning, these advantages are divided into three parts.

The first one refers to the ownership advantages of intangible assets such as technology and trademarks. When a company establishes in a foreign market, additional costs arise from operating from a distance compared to a local competitor. As a result, the foreign company will be forced to have an advantage that offsets the cost that occurs from being a foreign firm. This might come from either having lower costs or by earning a higher revenue.

The second advantage is attributable to location advantages, which refers to the existence of i.e. raw materials and low wages. In order to fully benefit from their ownership advantages, the firm must combine their own assets, such as their technology or management capabilities, with the use of some local factors as well. This makes the locational advantages of countries essential for where the company decides to enter and establish. This part of the model focuses on the question of where to locate. According to Dunning (1988), a motive to move abroad is the possibility to use the companies' competitive advantages together with the local advantages in a foreign country. He suggests that to be able to exploit these foreign assets the company must undertake FDI. For example, resources such as oil and gas are specific to certain locations and in order to take advantage of them the firm must be present.

Finally, the third one concerns internalization advantages, which refers to the advantages stemming from producing in-house rather than entering agreements such as licensing or joint ventures. Dunning distinguishes between three different forms of international activities, export, licensing and FDI. (Cantwell, 2005)

9.2 Transaction cost theory

An assumption underlying the transaction cost theory is that companies aim to minimize bureaucratic costs within the company in addition with the costs of exchanging resources with the environment. Accordingly, companies are weighing the internal transaction costs against the external transaction costs before deciding whether to produce in-house or outsource. In-house activities are for example M&As or greenfield investments, while licensing and franchising are examples of outsourcing. When external costs exceed the internal costs, the company is able to perform the activities to a lower cost and therefore produce them in-house. Since the market is not able to solve the problem, the company is forced to do it themselves. The opposite is said for the reverse situation. Factors like risk, environmental uncertainty and opportunism increases the external costs and can make it more economical to maintain the production in-house (Hennart, 2010).

9.3 Decision theory

Another important basic assumption in the transaction cost economy is the idea of bounded rationality. The term, coined by Simon (1957), means that those people making the decision will always colour a decision. As people can never take all variables influencing a decision in consideration, the decision is never optimal but rather satisfactory. Our cognitive ability is thus a limiting factor. The world is highly complex and people cannot take all this complexity into account, instead we construct a simplified model of the reality and try to consider the most important aspects when taking a decision.

Cyert and March (1963) argue that decision-making in organizations is not conditioned by external factors only, such as market behaviour. Instead, organizations are social constructions whose behaviour must be understood on the basis of behavioural theories. Companies are decision-making systems that follow decision strategies. These strategies are dependent on the objectives they set. First, many firms choose to focus on short-term objectives. Secondly, they also avoid uncertainty, which makes it easier to make secure short-term decisions than unsecure long-term decisions. Thirdly, decision-making is problem-oriented. Companies want to solve the issues that are direct problematic for the daily operations, this also contributes to their short-term behaviour. Finally, decision-making depends on the organization's ability to learn and adapt to new conditions. They mean that decision-making is based on social norms and values rather than strictly cognitive processes.

March and Olsen (1976) presented the garbage can decision-making. According to this model, decisions are always made under vague and unclear circumstances. As a result, no linear step-by-step process exists and making decisions is much more complex. They argue that a decision is the consequence of four interdependent streams; problems, solutions, participants and choice opportunities. This model emphasizes the decision making as a complex process that involves several components.

Decision-making is, and will remain, an important part of companies and decision theory has long been an important area of Scandinavian organization theory.

10. Conceptual framework

10.1 Definition of M&As

According to Krishnamurti & Vishwanath (2008), the definition of an acquisition is that one company buys either a division or a large share of another company. There are different forms of acquisitions. A merger proposal is when the acquiring company negotiates with the managers of the target company. The acquisition goes through when the managers approve the proposal and the shareholders vote for the deal. However, there are companies that take the offer direct to the shareholders of the target company. This is often referred to as a hostile takeover. Berk & DeMarzo (2014) argue that when buying enough equity and thereby enough votes in a company in a hostile takeover it enables a replacement of the board of director and of the CEO. This can have positive effects on the attractiveness of the shares and thereby result in a profit for shareholders, if the new management team is considered to be better than the previous. Hostile takeovers thereby provide an important function for the shareholders. Krishnamurti & Vishwanath (2008) discuss that only a minority of cross-border M&As are hostile. This is said to be due to managers of the acquiring company lack of knowledge regarding the culture of the target company's host country.

According to Krishnamurti & Vishwanath (2008), there are different forms of cross-border M&As. Horizontal mergers refer to when companies from the same industry merge in order to achieve synergies. Vertical mergers on the other hand are when companies from different parts of the value chain merge, such as buyer and supplier with the objective of reducing transaction costs. Conglomerate mergers occur when companies with unrelated activities merge. The chart below shows that horizontal mergers are most common.

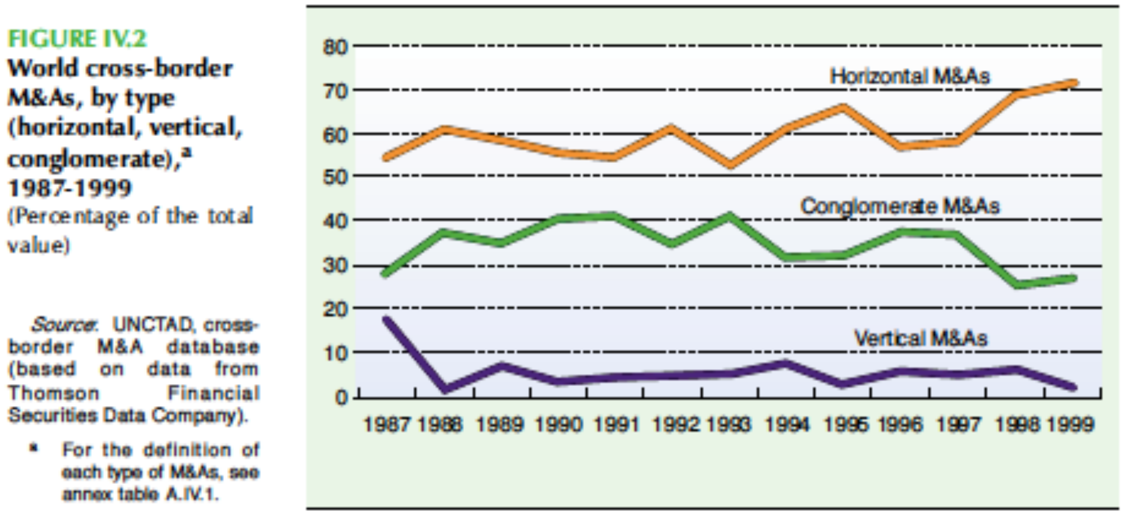

Figure 3: World cross-border M&As, by type (horizontal, vertical, conglomerate) (World investment report, 2000)

In his studies about M&As, Schweizer (2005) states that the first phase in the process of M&As is composed of positioning the company regarding M&As. Whereas the second phase include identifying a suitable candidate and evaluating them, negotiating and eventually the closure of a final agreement. Lastly, the final phase comprises of the fulfilment of M&A goals and ultimately realizing and achieving potential benefits such as synergies, which has been described in detail previously.

10.2 Objectives and advantages

Krishnamurti & Vishwanath (2008) mean that the main result following a merger or an acquisition is the change in the control of the target firm. Although, the forms of which this happens differs between mergers and acquisitions. A merger happens when the assets and operations of two companies form a new entity, whereas acquisitions lead to a shift of control from one company to another. In cross-border M&As, these changes in control are affecting companies in different countries, rather than in one home country. In addition, Cooper & Finkelstein (2013) talk about cross-border M&As as characterized by an objective from the acquiring company to position themselves or their products on an international market. In cross-border M&As it is most common for the target company to become a subsidiary of the foreign, acquiring company. It is also common for the management of the acquired company to continue handling the operations even after the acquisition. This helps to keep cultural problems to a minimum.

The main motive for M&As is to gain desirable synergies (Krishnamurti & Vishwanath, 2008). Synergies can help to create stakeholder value, which explains why an acquiring company may want to buy a significantly less efficient company in another country (Cooper & Finkelstein, 2013). Synergies of M&As can be related to economies of scale, economies of scope and economies due to competitive positioning, corporate positioning or financial strategy (Krishnamurti & Vishwanath, 2008). These synergies can be put in the framework of the eclectic paradigm and transaction cost theories.

Cooper & Finkelstein (2013) mean that another motive for acquisitions is growth potential. Acquisitions enables a growth rate that is not possible if a company were to undertake new projects from scratch, including creating brand awareness, establish networks and manage operations. Growth is also one of the most important factors for creating shareholder value. Growth can also create efficiency gains and cost reductions as it enables integration, rationalization and enhancement of capital usage. Growth can be attributable both to new markets of sales and new markets of products (Krishnamurti & Vishwanath, 2008). Researchers have observed a strong relationship between so called multinationalization and product differentiation (Cooper & Finkelstein, 2013).

According to Cooper & Finkelstein (2013), the main advantage with M&As is the speed of market entry. This enables companies to build a strong market position in a completely new market, as well as increasing the size of the firm and thereby decreasing the risks of international expansion. In addition, M&As facilitates access to important proprietary assets. Combining two companies' separate proprietary assets enables synergies.

Cooper & Finkelstein (2013) continue with saying that even though the relatively poor financial gains from M&As, there are some economic objectives. M&As offer great chances to gain economies of scope, meaning lowering the average cost for a firm in producing two or more products. However, gains through economies of scale are more rare. Due to technological advancements, multinational companies (MNCs) face increasing competitiveness and by merging with or acquire a company with desirable capabilities one can reduce costs and strengthen competitiveness. In addition, market liberalization has played an important role on the gains that stands to be made. Consequently, motives can be both short-term and long-term which this figure illustrates.

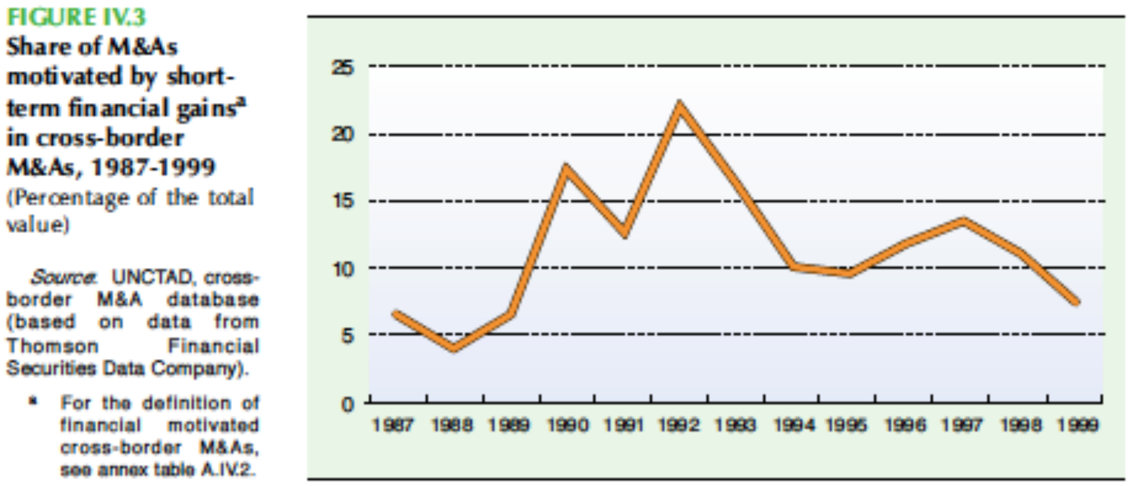

Figure 4: Share of M&As motivated by short-term financial gains in cross-border M&As (World investment report, 2000)

10.3 Risks associated with M&As

Despite several motives speaking for M&As, there are important disadvantages to take into account. Cooper & Finkelstein (2013) argues that two specific difficulties with cross-border M&As are the inability to issue shares to foreign nationals and problems in trading in stock exchanges between countries. Listing the companies in both countries can solve this. The more intertwined the two countries' capital markets are the easier a cross-border M&A becomes.

As stated before, Krishnamurti & Vishwanath (2008) mean that both domestic and cross-border M&As have a high failure rate. However, there are ways for managers to reduce risks involved with expansions overseas through cross-border M&As. The most important factor for successful M&As is to have clearly defined objectives of what the merger or acquisition should achieve. In addition, managers should establish a common strategy as well as common goals for the new entity. Another important detail is to take cultural aspects into account, such as assigning host-country nationals to the board.

According to Hill (2012), institutional constraints such as national regulations can impede organizational change. It is also important to take in account the ethical issues an international business can face. They are often attributable to the fact that political systems, legal systems, economic development and culture differ between nations. Such issues can be working conditions, human rights, environmental pollution, and corruption.

Schweizer (2005) explains that M&A failure is theoretically described by a lack of either strategic fit or organizational fit between two companies. Strategic fit refers to the match between the companies' different skills. Organizational fit on the other hand refers to how administrative practices in different companies complements each other. On the contrary, the process perspective views the M&A process in general and the implementation in particular as the important factor for the result of a merger or acquisition. Researchers with this perspective argue that potential synergies can only be achieved through good implementation after the merger or acquisition is made. According to both the process perspective of M&As and the so-called organizational stream, the integration process is the key success factor behind M&As. This stream also focuses on cultural compatibility between the two companies. On the contrary, the human resource management perspective on M&As emphasizes human psychosomatic reactions on employees following a merger or acquisition. This can cause problems such as stress or anxiety and will of course affect the success of the merger or acquisition. However, they all agree on the importance of considering all phases of the process in order to understand the result of the merger or acquisition.

When acquiring a company it is common for firms to perform a due diligence. According to Business Dictionary (2014), this refers to an inspection and analysis of the possible deal and functions as a way to confirm all facts about the sale in order to protect both parts. Assumptions that companies are rational such as these have to be put in the context of Dunning's eclectic paradigm and the transaction cost theory for further analysis.

However, Hill (2012) suggests that there are some drawbacks with acquisitions. As stated before, there is a high risk of failure in M&As. There are several reasons for this. For instance, the price is often too high in the end leading to a less valuable deal for the acquiring firm. According to the "hubris hypothesis" of acquisition failure, this premium pricing on firms being acquired is due to a tendency for management to be over optimistic about the prospects of an acquisition.

Hill (2012) argues that another impediment for a successful acquisition is the organizational culture and a potential clash of this between the two companies involved. At worst, this could lead to a high management turnover following the acquisition. This leads to big problems for an international business, as they are dependent on local knowledge from the management of the acquired company. Cultural differences may also impair the integration process of operations, which is a vital part of the success of realizing synergies. As firms merge they may have to alter their architecture in order to fit the new entity. However, organizations are difficult to change. Hill (2012) talks about *organization inertia,* which can be attributable to the existing power distribution within an organization, the existing company culture, and senior manager's ideas about how to run the company.

Problems in the internationalization process can also arise due to recruiting issues. According to Hill (2012), one way to ease the new operations in another country is to use so called expatriate managers. Expatriates are citizens of the company's home country working in another country. However, the expatriate failure rates are high.

Another important tool in the internationalization process for companies' is how to organize their global operations. This is also a way to alter the aforementioned architecture of the company, which as stated before may be necessary for management reasons such as cultural integration. According to Hill (2012), horizontal differentiation refers to the formal division of the organization. As there often are conflicting demands whether to organize the company around products or geographical areas, the decision is about which of these ways to go. International companies are typically organized as a worldwide area structure, a worldwide product divisional structure or a global matrix structure, which in short combines the two prior strategies (Hill, 2012). These structures will ultimately affect where decisions regarding M&As are taken.

10.4 Entering foreign markets

Increasing globalization has lead to a decreased impact of national borders for companies (Krishnamurti & Vishwanath, 2008). Accordning to Cooper & Finkelstein (2013), M&As are one of the most important tools for companies' internationalization processes carried out to benefit from competitive advantages in different geographical areas. In general, the main driving force behind M&As is the strive for synergies. However, it is more difficult to realize high returns from cross-border M&As than through foreign greenfield investments or domestic M&As and greenfield investments.

Cooper & Finkelstein (2013) argue that for a company investing abroad it is vital to analyse the attractiveness of the region. Then it is time to decide whether the company should acquire an already existing company or if it should set up a new greenfield venture. Regarding acquisitions it is also important to analyse the attractiveness of the target company. M&As are a quick way to expand, whereas greenfield investments are less complex and more flexible as decisions can be made from beginning to implementation.

Krishnamurti & Vishwanath (2008) also discuss that the location of the investment should be considered carefully, before the decision on whether greenfield investment or acquisition is the appropriate entry mode even can be made. However, this is often not as thorough as it should be due to lack of information, time or money necessary to conduct a proper analysis. In general, the size of the market, the investment climate of the country, the availability of technology and the distance to network and markets are important parameters. This can be seen in Dunning's eclectic paradigm, as we described above, where he discusses the locational advantages of countries. When a firm establishes in a new market, the importance of using local factors is essential if the firm will be able to compete with local rivals. These factors can be for example raw materials or access to cheap labour.

According to Cooper & Finkelstein (2013), an extensive economic liberalization has been carried out through free trade agreements, deregulations and increased integration level between countries in economic, legal and political aspects. This has lead to an increase in investments abroad such as greenfield investments or cross-border M&As. However, governmental policies such as tariff and non-tariff barriers can facilitate cross-border M&As, as greenfield investments may not be possible.

The liberalization in the world has, as stated by Krishnamurti & Vishwanath (2008), lead to increasing interdependence between developed and developing countries, as deregulations and harmonization of laws of capital markets has encouraged cross-border investments. Great efficiency on the capital market of developed countries has also facilitated cross-border M&As.

According to Dickens (2011), the international business literature is vast. However, its most developed theory is perhaps the OLI-theory by Dunning. He argued that an essential precondition for a company to seek new markets overseas is the ownership of some firm-specific assets. These assets are primarily developed in the domestic market and then transferred, internally through the company, to foreign areas. Such assets can for example be firm size and economies of scale, market power and marketing skills, technological skills and access to lower costs. A fundamental assumption is that a firm cannot expand into foreign markets until it has reached a substantial size with sufficient resources. Therefore, transnational companies are often associated with a large size.

10.5 Product life cycle

Through the expansion into new markets a company can increase its profitability. In a fast moving and intensely competitive environment like todays, it becomes crucial for companies to continuously offer their customers new and improved products. However, according to Vernon (1966), all products have a limited life span, which is commonly referred to as the product life cycle. This theory describes the systematic path that the growth of sales usually follows and which has significant implications for firms' growth and profits. Also, it is a commonly used theory for describing why firms expand internationally.

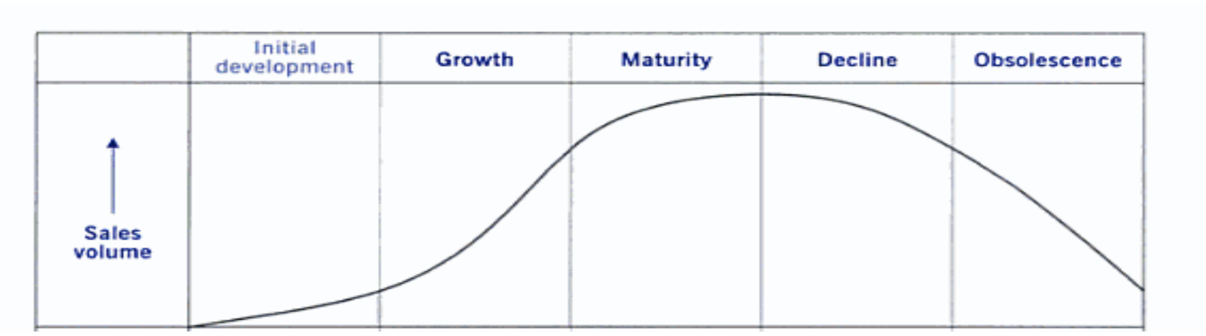

Figure 5: Product life cycle (Hill, 2011)

Hill (2011) describes the cycle that is shown above. It consists of five phases which each has its own production characteristics. The cycle starts with the initial development and is characterized of very few buyers but also few competitors and a low capital intensity. As the cycle later proceeds and the product matures, the need for the aforementioned factors increases and eventually peaks before the demand starts to decline and finally disappears. More importantly, different geographical locations are suitable to different stages in the cycle, which may force companies to go abroad.

In the first phase of the product life cycle all production would be located in the home country and the foreign demand would be satisfied by export. As the domestic market becomes saturated, companies are forced to expand into new markets to maintain profitability. They would therefore set up production facilities in the new market in order to reduce production costs or because their market position is threatened by powerful competitors. The first foreign production would be located in those markets that where previously provided by export. In the last phase of the cycle, as the product matures and is completely standardized, the production would move to low-cost locations such as developing countries.

The length and speed of the production cycle varies from one product to another. However, the cycles have become generally shorter. This is forcing companies to develop new products in a faster pace or acquire them from an already existing firm.

10.6 Other entry modes

Once a company have decided to enter a foreign market the next step is to choose the best way of execution. There are various entry modes to choose between, each with its advantages and disadvantages. In addition, they are consistent with different levels of control (Chan Kim,

W. & Hwang, P., 1992). The management need to carefully consider which one to utilize since it can have a significant impact on the firms growth and profit. Our focus is on M&As, but we will have a brief introduction about other entry modes in order to provide a context (see below).

Entry mode	**Advantages**	**Disadvantages**
Export	- Avoiding substantial costs - Scale economies	- High transport costs - High risk and low control
Licensing	- Lower cost and risk - Avoiding investment barriers	- No tight control - Risk of losing know-how
Franchising	- Lower cost and risk - Fast	- Lack of quality control - Difficult to monitor
Joint ventures	- Access to information about host-country - Shared risk and cost - Avoiding political barriers	- Risk of losing control - Conflicts
Wholly owned subsidiaries	- High level of control - Location and experience economies - Total access to profits	- High degree of risk and expenses
Greenfield investments	- Form the kind of subsidiary you want	- Slow - More risk and costs

Figure 6: An overview of advantages and disadvantages of different entry modes (Hill, 2012; Fernandes et al. 2014)

As explained by Hill (2011), when a company owns 100 per cent of a firm it is called a wholly owned subsidiary. The establishment of a wholly owned subsidiary in a foreign market can be accomplished in two ways. Either by acquiring an already established firm or by setting up a new facility in the new market, often called a greenfield investment, which we will focus more on later in the text. A wholly owned subsidiary reduces the risk of losing control over technological competence, which is important for companies whose competitive advantages lies in their technology. It gives strict control over businesses in different nations enabling the possibility of engaging in a global strategy. It also gives the ability to realize location and experience economies that might otherwise have been lost. In addition, a wholly owned subsidiary gives the firm access to 100 per cent of the profit earned in the foreign market. It is, however, an entry mode associated with a high degree of risk and expenses. Additional problems include the efforts of trying to marry two corporate cultures.

Hill (2011) illustrates that establishing an entirely new operation in a foreign market is often referred to a greenfield investment. The great advantage of a greenfield investment is that it offers the possibility to form the kind of subsidiary that the company wants. It is, for example, much easier to build a company culture from the ground up than to change an already existing culture. Same thing applies to operating routines and alike. However, greenfield investments are much slower and more risky to establish due to the fact that the firm has to bear all the costs and risks associated with establishing a new entity. This can be regarded as a rather important disadvantage in the business world today where markets change and develop in a very quick pace and it is crucial for companies to keep up. As a result, a relatively small proportion of cross-border investments are greenfield investments.

To summarize, the literature regarding international business is extensive, however, they all have a common denominator. The traditional view in the literature is that companies expand into new markets and becomes international by following a number of steps in a clear and predetermined sequence. It is a view that starts with the firm being merely domestic regarding both production and markets. Eventually, potential benefits will stimulate companies to set up overseas operations. This might be done by acquiring or merging with an existing firm in the host country.

11. Method

According to Åsberg (2000), each scientific paper has to be built upon a number of decisive choices of ontological and epistemological nature. This refers to in what kind of world (ontology) you seek what kind of knowledge about (epistemology). This is superior to the choice of method, which is often chosen first.

Ontology refers to the philosophical study of the nature of being and is about the overall level of determination of how we perceive the reality. Decisions on this level are necessary and essential. Before examining something empirically, we already have some definite ideas about the reality that constitutes the framework in which the knowledge appears and is created in. To become aware of the ontology we ourselves are subject to, we must first understand that there are several ones. Primarily, we need to reflect on what we take for granted and secondly, we need to problematize our "unproblematic starting points". We believe that our earlier knowledge, gained from previously taken courses in international business, might have served as a type of framework for how we perceived the knowledge we received.

Epistemology refers to the study concerning the nature and scope of knowledge. This philosophy addresses issues about the nature of knowledge as well as the ability, origin and validity of how we perceive knowledge. How do we know that the knowledge is reliable? When do we feel that we know something for sure? What do we base that knowledge on? There are different approaches to answering these questions; some saying that the base for knowledge is experience while some claim it is common sense. These different views lead to different types of knowledge and understanding. We have, in this study, interviewed people with long experience in their industry and thus we feel they have gained great knowledge within their field over the years. We therefore agree with the empirical approach saying that the base for knowledge is experience.

In our thesis, we used a deductive approach. This approach is the classical scientific method where you, on the basis of a reference frame such as a theory or a model, formulate hypotheses. These are later tested and compared to the reality through observations. (Pelissier, 2008)

11.1 Choice of method

We chose to use a combination of case studies and qualitative interviews in our paper. Case study is a well-established research method in international business research. After reviewing a number of articles in international business, Welch, Piekkari and Paavilainen (2009) found the case study to be the most popular qualitative research method. They do not find this surprising as it has great potential of generating radical theoretical insights. There is a widespread belief that a case study is barely suited for preliminary theory building, however, Welch et. al. identified the case studies main potential to lay in its capacity to produce new theory from empirical data. Yin (2009) agrees and explains that he found case studies to be the best method to answer how and why questions, like the ones we are asking in our study, and he considers them having a strong explanatory contribution. Since case studies enable the rich description that is necessary for understanding, it is well suited for identifying cause and effect relationships as well as understanding human experiences.

They also argue that a combination of studying existing methodological literature and case studies, improves the case study regarding contextualising and producing casual explanations. They mean that the case study has an important role concerning refining, verifying, testing and challenging existing theory.

To simply establish a cause effect relationship is viewed as being "simplistic". Instead, the goal is to reach a "thick description". This refers to recognizing how the social context infuses human action with meaning.

We have chosen qualitative interviews as our method. We believe that the nature of qualitative research interviews, that is to produce knowledge in a social interaction between the interviewer and the person being interviewed, is suitable for our purpose of this study. As the production of data in a qualitative interview is based on the knowledge of the interviewer, the most important factor for a successful collection of data with this method is the quality of the questions, and the ability to come up with relevant follow up questions. This requires great knowledge about the subject. (Kvale & Brinkmann, 2011)

Interviews can either have an exploratory or hypothesis-testing purpose. We chose to have an exploratory purpose, which gives interviews that are open and semi-structured. The interviewer introduces questions about the subject and follows up on the answers by looking for new approaches to the subject. (Kvale & Brinkmann, 2011)

Because of the nature of our research purpose, we think that this method is the most suitable. We wanted to obtain empirical knowledge about executives' experiences of our topic. We believed that by conducting interviews we would get closer to the topic.

The flexibility of the interview makes it attractive. However, a difficulty with interviews is that there are very few well-established rules of how to analyse qualitative data. Instead, a number of guidelines exist. One of the most common ways is conducting a thematic analysis. (Bryman & Bell, 2011)

Telephone interviews, which we used, are not as widely used as face-to-face interviews, but have certain benefits. Advantages include that it is cheaper to conduct and useful for hard-to-reach groups. It may also be easier to ask sensitive questions since the interviewee may feel that it is easier to answer them when the interviewer is not physically present. It might increase the sense of anonymity and encouraged them to participate. Also, for organizations located overseas, like in our case, we felt that it was more practical and appropriate. (Bryman & Bell, 2011)

However, there are certain issues with telephone interviewing. It is unlikely to work with longer interviews. In our case, we felt that this was not an issue, as we had no need for longer interviews. Neither is it possible to observe body language, which may be helpful in some cases. (Bryman & Bell, 2011)

11.2 Implementation

We followed Kvale's and Brinkmann's (2009) so called *seven stages of qualitative interviews* as a research method. According to them, the first step is thematization. Thus, we started our research project with formulating our purpose and our research questions. According to the authors, this is important to do before the interviews begin. This felt quite natural for us as we wanted to be clear about what our chosen subject was before we started to contact executives with busy schedules. When we had clarified the reason for why we wanted to look into our subject, and had gained knowledge about the area, we started to think about the appropriate research method.

Our next step was the planning of the interviews. Kvale and Brinkmann (2009) emphasized the importance of paying attention to the moral consequences of the research. We decided that our purpose was relatively free of moral consequences. They only parties that stand to be affected are the companies, which are anonymous in our study in order to protect them from possible side effects. How we produced our interview guide is further explained below.

Our objective was to be as open as possible about our purpose to our interviewees. We did not see any reason not to. We wanted them to be prepared for the questions and that their prior reflection on the subject would be a positive for our research. We conducted the interviews according to our interview guide (see Appendix A). All of the interviews were conducted in the same way and lasted 30 minutes each.

Nearly every researcher stands the choice of anonymity or not. The most desirable option is to reveal the identities of the interviewees as this facilitates two things. First, it helps the reader to recollect everything he or she previously may have learned about the case. Second, it makes the whole study easier to read and review. (Yin, 2009)

However, sometimes anonymity is necessary (Yin, 2009). In our case, we had a very hard time finding people to interview. We got the feeling that M&As where something many found quite sensitive to discuss. We asked five companies, two of which could not participate as they felt that M&A activities are too sensitive to talk about. When we offered the other companies the opportunity to be anonymous it was easier to find employees willing to conduct interviews. As the other participants were willing to be interviewed with the condition that they were anonymous, we chose to make the companies and its informants anonymous.

After this, we prepared the interview material which in our case involved transferring the interviews to written language. Next step was to determine which method of analysis to use.

After the analysis was done, it was time to determine the validity, reliability and generalizability of the interview results. Reliability refers to the consistency of results. Validity is whether the study investigates the subject it was supposed to investigate (Kvale & Brinkmann, 2011). The final step according to Kvale and Brinkmann (2011) is reporting the results.

11.3 Selection

In our case, we chose to conduct interviews with three employees at three different companies. According to Kvale & Brinkmann (2009) there is no easy answer to how many interviewees is needed. In general, it should be as many as needed to gain knowledge about the area we are studying. However, it is common for qualitative interview researches to have too small or too big amount of interviewees. As too many people makes it hard to make more detailed interpretations of the interviews, we felt it would be more important to interview a small amount of people but on a deep level. We risked the possibility of making it difficult to generalize, as this is the widespread belief in international business. However, case studies are common in international business literature and both Yin (2009) and Welch et. al. (2009) argues in their articles that case studies are the best method to answer questions like the ones we ask in our paper. Therefore, we felt that in-depth interviews was the best way to reach the insight necessary for our research purpose, even though this for practical reasons and time restrictions meant few interviewees.

The first interview was conducted with the Vice president (VP) of a Scandinavian company active in the oil and gas industry. They provide solutions within the oil and gas industry through supplying products, systems and services to great parts of the world. This makes them a highly technology driven company that places great demand on knowledge and competence. It is itself a result of a number of mergers between various companies. They are present worldwide and employ about 28, 000 people. We will refer to this company as company A. The oil and gas industry is seeing more and more challenges in the future as consumption and development of unconventional resources increases. In addition, the pressure of sustainability and rising environmental impacts raises even more difficulties for the industry. However, this has made the industry a pioneer in developing and using new technology With prices of oil and gas rising to ever-higher prices, it has become profitable for companies in the industry to search for resources that are more difficult to access. (ABB, 2013)

The second interview was carried out with the CEO of another Scandinavian company operating mainly in the telecommunication industry. They also have other additional services and banking operations in parts of the world. Since they are active in this industry, they are heavily dependent upon licenses provided by the authorities. When it comes to greenfield investments, it is rather about the auctioning of licenses than investing in factories from scratch. Because they rely on licenses in such a great extent, they are partly bound in their establishment decisions. The company is experienced when it comes to M&As as they have expanded since 1996 through both M&A and greenfield investments. When buying state-owned enterprises an auction is performed and the company that offers the highest price and holds the necessary technology may purchase the company for sale. The corporation have also changed their concept, they are no longer technology oriented but instead customer oriented. They are using standard technology and because of this they are not using M&A as a way of gaining new technological competence. We will refer to this company as company B. A rapid growth and an ever-expanding range of services and functions characterize the telecommunication industry. The industry is one of the most vibrant and dynamic global markets due to a more globalized and connected world. It has a transnational nature where regional, international and most importantly cross-border cooperation is a key aspect. (ITU, 2013)

The third interview was conducted with a Director of change management employed by a large transportation provider. The concern is one of the largest Nordic players on the market with approximately 22, 000 employees and are active internationally. The interviewee also has considerable experience from multiple multinational companies and Nordic companies active in the consumer goods industry. We will refer to this company as company C. A more globalized world has made the transport and logistics industry increasingly important and it plays a critical role in every company around the world. The international supply chains, where activities are spread out in multiple locations, have become increasingly common. The transport industry is thereby of high importance and it has been a major driving force for growth in global trade volumes. Research has shown that an effective transport industry results in more growth in trade than lower trade barriers does. (World economic forum, 2012)

11.4 More than one interviewer

We chose to both participate in all interviews. In some cases it may be favourable to be more than one interviewer. Another interviewer can act as a good support and they can often perform a better interview with a greater amount of information and insight than just one would hold. When interviewing a representative of an organization or a company, it may be more appropriate with two interviewers. They can then complement each other and it may also appear more polite and professional with two people as interviewers (Trost, 2010).

11.5 Interview guide

Opinions differ on what to include in an interview guide. According to Trost (2010), when performing qualitative interviews no questionnaire with pre-formulated questions is needed. Instead, you should try to allow the interviewee to control the interview as far as possible. To facilitate this, one can make up a list of question areas. The list should be quite short and address few but large areas instead of going into too much details. The content and sequence of the guide is determined by the purpose of the project. One should be careful with including too much in the interview guide. The more material you have, the more difficult it becomes to process it later.

You can use different interview guides and they do not need to be identical but can instead be varied depending on who you are interviewing. However, the different guides need to be comparable and have the same overall content. The guides does not have to be structured in a special way, for example in any logical order or the like, you simply create a guide that is suitable for yourself. After the first interview it may be useful to review the guide and change anything that you think requires change (Trost, 2010).

One benefit of including relevant themes in the interview guide is to facilitate the analysis. This makes it possible to code the collected material according to these themes in order to establish the core of the material. It is important to identify areas of which many of the interviewed talked about. (Dalen, 2007)

Our interview guide was semi-structured including topics to be covered and suggestions for questions to bring up, but leaving room for relevant follow up questions. We were inspired by Kvale and Brinkmann to do this. We felt that this matched our purpose the most, but also hade practical reasons as we experienced that the more structured we was the easier it was to get the interviewed to start talking and to be most time-effective. Our questions were inspired by Kvale and Brinkmann's (2011) suggested types of questions. These consisted of a mix of introductory questions such as "Can you tell me about…", direct questions such as "When you talk about this, do you mean this or that", and indirect questions such as "How do you think other people feel about…".

Our interview guide is attached in Appendix A.

11.6 Critical review of the method

According to Yin, case studies have long been considered as a less desirable method by many researchers. The greatest concern has been the lack of rigor in the case study research method. In many cases, the researcher conducting the study has been sloppy, biased and not following procedures, which has made the quality of the study poor. Critics argue that this is not as likely to happen with other methods.

A second concern has been the question of how it is possible to generalize from case studies. Critics suggest that they offer a poor base for generalizing. According to Yin, there are some things to keep in mind when designing the cases that can help to ensure the validity and reliability of the study and thereby the quality of the paper. Firstly, we tried to ensure the validity by using multiple sources of evidence and establish a chain of evidence. We also had key informants review the draft report. To establish what he called internal validity, we tried to do explanation building using logic models as well as addressing rival explanations. The external validity is often regarded as the most important one, as it is about the generalization of the study and has been a major barrier to case studies. The main way to handle this in multiple-case studies has been to use replication. For the study to be generalizable, the result has to be replicated in another area. To increase the validity in our study, we applied our method on three firms.

When talking about reliability or accuracy of a measurement, Yin (2009) argues that one traditionally means that the measurement is stable and not exposed to random variables. When it comes to qualitative interviews one often refer to that all interviewees are asked in the same way and that the situation will be the same for everyone etc. To ensure reliability, another researcher is supposed to be able to conduct the same study and get the same result. The aim is to minimize biases and errors. In order for this to work, we needed to document the study carefully. We also decided not to send back the answers to the company representatives for further scrutiny. This was because we felt that it would give them the possibility to affect the answers that were given in retrospect and thus increase the chance of biases.

Methodologists suggest that other methods are limited in their ability to answer questions like "how" and "why", whereas case studies are better suited for this (Yin, 2009). Since our research question is of this nature we believed this method would be best suited for us.

The ideas of reliability and validity are derived from quantitative methodology and are in the context of qualitative studies therefore quite different. To try to measure reliability and validity in qualitative interviews becomes somehow out of place and difficult to execute. Interviews and collection of data should be undertaken in such a way that it becomes credible, adequate and relevant (Trost, 2010).

11.7 Processing and analysis of the material

Once you have undertaken the interviews you need to process, analyse and interpret them. When talking about qualitative studies there are various sets of rules for how this should be done. However, at qualitative interviews, no such pre-defined rules and techniques exist. Instead, imagination and creativity will have to act as a tool in a greater extent. It is often distinguished between different phases. After conducting the interviews, one should start analysing the data. This refers to reading through everything you have written and start thinking about what you saw and heard during the interviews. Finally, you interpret the data and try to differentiate between what was interesting and what was not (Trost, 2010). In our case, we followed the themes in our interview guide to see where the answers were consistent and where they differed. We continued with analysis of the results in the theoretical and conceptual framework provided in our thesis.

12. Empirical results

12.1 M&A organization

As stated earlier in the chapter of theory, there are several ways to organize a company during their internationalization process. Although the way that multinational companies manage and direct their international operations can differ among companies, we found that the organizational architecture of the companies we looked at were very similar. Company A used a typical functional structure. Either the board of directors, the CEO or the business area manager depending on the size of the deal decides the decisions about M&As in specific. Naturally, the larger the deal, the higher up in the corporate hierarchy decisions about a deal are made. However, the responsibility for the actual execution of the deal is assigned to the so-called M&A division. A management team especially appointed for the specific deal later assists this division.

Company B have the same chain of command regarding M&As. As investments can reach substantial amounts, the CEO of the company often makes decisions. Together with a corporate strategist, it is the CEO who has the final say in all M&A decisions. As a typical global matrix structure, decisions are based on research conducted by both regional departments as well as departments of different product areas. In this case the regional departments are based on the geographical areas; the Nordic countries, East Europe and Asia. Alike company A, an M&A division is responsible for executing M&A deals. This division consists of 5-6 people, which can compare to a total number of employees of approximately 33,000.

Much like company A, company C has chosen the same allocation of responsibility of the various M&A activities. The Board of Directors is responsible for every single merger or acquisition and all decisions go by them in practice. A department of strategic investments has been assigned the tasks of analysis and planning of the process. They see this as the main engine for all investments. The management team is responsible for execution of the deal as well as quality assurance of the process. Additionally, the International Department assist regarding operations. This is the department of which our interviewee is the Director of. This way of organizing M&A decision-making has been the same in the different industries he has experience from.

12.2 The M&A process

When looking at the process of decision-making regarding M&As, the companies seem to be equally flexible. For company A, the process is specific for each case. The process depends on whether they have won a contract and want to facilitate the entry, or if they want to enter a completely new market without having a contract from before. In general, the process begins with researching and identifying the needs of the market and the customers. This research aims to answer the question of where the company needs to be present in order to stay competitive. The next step is to analyse the competitive market and establish whether there is a suitable company to buy. If there is not a satisfactory candidate in a desirable market, the company opt for greenfield investments instead of using M&As as entry mode. In addition to macro economic factors such as market demand, and market competition there are a few important practical considerations to take into account when deciding on entry strategy. One of the most critical factors for them is whether there are suitable people from head quarters who want to work at the new plant. Recruiting people for a greenfield venture is difficult since employees will initially lack colleagues. Another aspect that makes the recruitment process more difficult is the fact that a desirable company culture from an employee perspective is not yet established in a greenfield venture. Respondent A is responsible for the M&A division further explains that it is much more difficult to go from 0-30 employees than from 30-100 employees. It is a very time consuming task to hire skilled employees, and considering that M&A decisions are ultimately a cost-benefit analysis this will of course have serious implications on the success of a merger or an acquisition.

Correspondingly, decisions at company B starts with researching the specific geographical country in question. As strategy differs between different regions, decisions are to be made on different grounds depending on in what region the deals are set. As previous example, the next step of the process is to look on what is available to buy. This is even more important for company B compared to company A, as the nature of their industry does not allow them to establish operations without a license to do so. Respondent B says that the price is the single most important decision factor. Accordingly, if the price is right, they are generally a very active buyer on the global market.

Company C share the same view regarding strategy being the main determinant of M&A decisions. To them, the main target is to be number one or two in the Nordic market. This objective is always mirrored in the decisions regarding entry modes. M&As is ultimately a result of continuous strategic analysis. According the Director, suitable candidates for acquisition can “pop up over night”, but will only be acknowledged if it is a deal that is consistent with the company’s long-term plans.

12.3 Motives

One area where the companies differ is motives behind M&As. According to company A, the motives behind M&As are often to acquire new technology. Factors behind the decision are attributable to cost, time and relationships (i.e. to acquire a company with a relevant customer portfolio). In addition, another advantage with M&As is local content as M&As facilitate the ability to bid on a local contract.

However, the main motive for company B to carry out cross-border M&As is expansion. As they consider their home market to be saturated, cross-border M&As is the only way for the company to grow. Additionally, interference from competition authorities prevents them to gain more market shares in their home market through M&As. Therefore, the biggest advantages with M&As are considered to be access to new markets, the ability to grow and to grasp new opportunities. Cross-border M&As thereby facilitates growth despite limited opportunities in their home market.

Company C's main motives for M&A are to buy their way in to a new, desirable market or to reduce the number of competitors. Potential in growth rates, the degree of risk with different entry strategies and their own financial stability or strength all affects the decision. Currents business trends negligible neither. Motives for M&As compared to greenfield investments are attributable to short- and long-term growth. M&As is a superior way of buying expertise, reducing competition, increasing market share and to positively influence return on investments (ROI). In the end it is a decision on whether to take immediate action or to build something up over time. The time aspect is one of the most important according to company C, which indicates M&As as the most suitable option.

He returns during our interview to access to international expertise as the main advantage with M&As. They are very dependent on international logistics experts in his company today as the different logistics market in Europe differs significantly. When acquiring a firm who is already operating on a target market, the knowledge about the market follows with the deal. Additionally, increased customer base, immediate and fast synergies, as well as increased market share are important.

12.4 M&A failure

Nevertheless, it is important to keep the disadvantages in mind in order to take protective measures. According to company A, such disadvantages are often attributable to management issues. The Vice President of company A testifies that smaller acquired companies often have lower risk-taking level than they have as a big multinational company. As change often is a difficult task for management to complete, it takes time for the acquired company to become confortable with a new risk level. As time is costly it will affect the total cost of the M&A.

In addition, cultural aspects are essential to many of the problems arising with M&As. For instance, the management style may be incompatible with the management tradition of the acquired company. From experience, a common problem following an M&A is that an acquired company does not have a tolerance for new processes implemented by the headquarters. In the end, according to the Vice President, M&As are a weighing between costs and benefits. This in turn is affected by how big the company needs to be in order to reach the level of critical mass, and how long this is expected to take.

In the experience of respondent C, culture is not an issue if this is handled with seriousness and care. However, it is easy to get too enthusiastic during an M&A and thereby fail to acknowledge important and complex aspects in advance. This could for instance be to acquire a company which main product turns out to not be according to standard or compliant with ISO rules.

In order to avoid these risks it is important to perform meticulous due diligence. In addition, to carefully plan integration with regard to good communication, having a robust plan and a dedicated project manager that can get things done even outside the frames of regular operations, are crucial success factors.

According to company C, a strong leadership and a stable management that focuses on the process, especially during the evaluation period, can avoid the disadvantages. The accumulation of shared knowledge among employees is also an important factor. Together with a meticulous and detailed analysis preceding the decision one can avoid some of the risk that M&As involve. M&As are often a fast moving and rough processes and he emphasizes the importance of being patient and not to rush as this might lead to making wrong decisions. Thus it is important to stop and reflect otherwise you might suffer later. It is also essential for the company to have a standardized process in terms of how to handle M&As in order for them to be successful. In addition, he stresses the importance of follow-ups after the decision has been made.

According to the CEO of company B, their M&As are often based in countries which are difficult to operate in. This is due to corruption and poor governance on authorities. On the other hand, it is on these markets that they meet a lot less competition from other western companies. Few Western companies have the courage to enter these markets as a result of these difficulties and ethical considerations. With strict internal rules and zero tolerance towards corruption etc, the company are trying to handle these difficulties. They explain that their 20 years of experience with cross-border M&As help them to solve problems. However, the biggest obstacle today regarding ethical aspects of doing business internationally is to control every layer of supplier in the supply chain.

As telecommunication services are required to be licensed by the state authorities, company B is dependent on such licenses. It is critical for this company to find a partner with close relationship to the authorities due to the extensive amount of regulations the telecommunication industry is subject to. This will facilitate the entry into new markets. According to the CEO, it is therefore important to choose a trustworthy candidate, which has proven to be difficult in many countries.

12.5 Synergies

Synergies refer to when two or more parts together form a stronger effect compared to what they would have done on their own. It is a common term when talking about M&As as two merged companies together can accomplish more than they could have done separately. According to company A, it is a very wide concept and is therefore difficult to discuss but mentioned that M&A synergies can for example refer to building and strengthening customer relations and processes.

Company B consider the term to be a bit excessive but regarding the purchasing of process systems they feel that they have gained favourable synergies. However, when it comes to operating the company the technology have developed in such a fast pace in the recent years that it has been very problematic and close to impossible to achieve synergies, regardless of whether M&As or greenfield investments are used.

The only person in our interviews that acknowledged synergies as a motive for M&As was company C. According to the Director, this is due to very small margins in his industry. By conducting M&As they have the possibility to increase margins on the total. Additionally, the Director talked about "value chain synergies", where the synergies emerging from M&As are attributable to expanding the value chain. He mentions as an example that if they decide to buy a storage unit in a city, they are likely to want to buy a company in the same city with an existing customer base there. In his experience, it is easier to achieve synergies by M&As than through greenfield investments. The main differences lies in time and process. At the same time, the risk factor speaks for M&As in his opinion.

12.6 M&A success

The success rates of M&As are, as mentioned earlier in the text, considered very low compared to other entry modes. However, company A consider their M&As to be successful in almost all cases but mentioned that there are naturally always risks with these investments. Company B has a slightly different view, they experience that M&As are sometimes very successful while other times they fail. It is common for firms to overestimate the revenues of the company they want to acquire; this results in having to pay an excessively high price. Once you have done this, it is hard to make the investment profitable again and it is thus regarded as a failure.

When comparing the success rates of M&As to greenfield investments, both companies agree that it depends on the degree of greenfield operations. Company A believes that conducting a greenfield investment from scratch is both difficult and demanding and therefore becomes a major task for the company. As a result, the success rates for greenfield investments may be lower than those for M&As.

The Director of Company C has experience from 7-8 acquisitions. According to him, some of them have been successful, while others have been stopped internally before going through. In general, he believes that M&As have high success rate. He mentions a rate between 60 % and 70 %. This is based on standardized and high quality processes. Furthermore, M&As have a quite significantly higher success rate than greenfield investments in his opinion. This is based on return on investments (ROI), market share and earnings before interest and tax (EBIT).

Company B suggests that, in agreement with company A, the success rates of greenfield investments depends on the degree to which it is implemented. They feel that it can be difficult to draw the line between greenfield investments and M&As. What exactly is considered a greenfield investment and what is considered an M&A? As an example, the CEO explains that taking over a small-sized company is regarded as a greenfield investment if their objective is access to a license.

12.7 Preferable entry mode

When asked which entry strategy they preferred we got nearly the same answer from the first two respondents. They do not prefer particular strategy; instead it depends on the specific situation since it is case based. Advantages and disadvantages are weighted against each other in every specific case and it is then determined which entry strategy to use. Company A describes that if they have won a large contract, greenfield investment is preferred as their entry mode, while M&As are preferred if a suitable candidate emerges. Company C definitely stands out in this regard, as the Director states that he undeniably prefers M&As. The reasons for this are lower risks regarding market changes, more predictable effects, possibilities regarding customers and reduction of competition. He base these conclusions on his experience from industries with low margins and fast consumer areas.

For Company B, the most important factor is the price. If they are offered a good price they will purchase the firm, as they do not have the strength to enter a market that is already saturated.

According to the VP of company A, the popularity of M&As in other companies has to do with time, costs and the need to reach critical mass, which is consistent with the their motives regarding M&As as entry strategy.

According to respondent B, quick access to new markets and increase of market shares are among the reasons why M&As are so popular. This depends however on the nature of the business. In his industry, market shares are the single most important factor in order to achieve profitability. It also depends on where in the product life cycle your product is. A company with a relatively new product will naturally expand mainly through greenfield investments.

Respondent C agrees, and points out effectiveness in process (speed of entry), reduced risk and access to capital as reasons for M&As popularity in today's business environment. There is also a trend towards short-term focus on profit due to the stock market. Media also plays an important role in fuelling the attention on short-term profit, and thereby influences M&A decisions, at least mentally.

	Process	**Motives**	**Synergies**	**Success rates of M&As**	**Preferable entry mode**
Company A	Specific for each case	Cost, time, relationships, technology	Not important	Successful in almost all cases	Depends on the situation
Company B	Specific for each case	Expansion	Not important	Sometimes successful, sometimes they fail	Depends on the situation
Company C	Specific for each case	Reduce competitors, new markets, international expertise	Easier by M&As	Between 60% and 70%	M&As

Figure 7: An overview of the empirical results.

13. Analysis

A fundamental assumption in Dunning's eclectic paradigm is that a firm cannot expand into foreign markets until it has reached a substantial size with sufficient resources. Accordingly, all companies agreed upon the importance of available financial assets and financial strength for M&As to be a possible option Therefore, transnational companies are often associated with a large size. As firm-specific assets often are developed in the domestic market and then transferred, internally through the company, to foreign areas, this theory can explain why M&As exist.

13.1 M&A organization

Hill (2012) explains different ways of organizing global operations. The architecture of the organization will affect where decisions regarding M&As are taken. All three companies have organized their global operations in broadly the same way, despite operating in different industries.

13.2 M&A process

According to Krishnamurti and Vishwanath (2008), the M&A process consists of different steps in a clear, specific order. They argue that the decision of where to locate the investment should precede the step consisting of which entry mode to use. Both Cooper and Finkelstein (2013) as well as Krishnamurti and Vishwanath (2008) emphasize the importance of analyzing the attrativeness of the region. This is also in line with Dunning's eclectic paradigm where he claims that locational advantages play an important role in a firm's ability to compete. However, our interview with company A revealed that they decide simultaneously on market and candidate. Instead of deciding on a market to enter before which entry mode to choose, that always have an eye open for candidates to acquire, and when an opportunity arise, they act on it (Respondent 1, personal interview, 29 April 2014).

13.3 Motives

According to our respondents, the objectives of M&As are the possibilities of a quick entry, lower costs compared to other entry modes, and reduced competition. This is in line with Cooper and Finkelstein (2013) as they argue that M&As is a way to position the company or their products on an international market. Accordingly, Dunning's eclectic paradigm states that multinational companies each hold firm-specific competitive advantages facing their rivals.

In theory, the main driving force behind M&As is the strive for synergies (Krishnamurti & Vishwanath 2008). However, synergies were not at all as important as in the literature (Respondent 2, personal interview, 2 May 2014). As Cooper and Finkelstein (2013) stated, it should also be more difficult to realize high returns from cross-border M&As than through foreign greenfield investments or domestic M&As and greenfield investments. This is not the case though, according to the executives we talked to. In their opinion, M&As are in general their preferable entry mode.

According to Cooper and Finkelstein (2013), growth potential is one of the main objectives behind M&As. This is in accordance with our respondents' view of M&A objectives. In their opinion, M&As have an incomparable speed of increasing market shares.

In theory, there are relatively poor financial gains from M&As according to Cooper & Finkelstein (2013). However, some economic objectives could be economies of scale, cost reduction and competitive strengthening. This is in line with our interviewees' answers. By merging with or acquire a company with desirable capabilities they have reduced costs and strengthen their competitiveness.

13.4 M&A failure

According to Schweizer (2005), M&A failure is described by a lack of either strategic fit or organizational fit between two companies. Strategic fit refers to the match between the companies' different skills. Organizational fit on the other hand, refers to how administrative practices in different companies complements each other. And while the companies' representatives identified risks concerning both strategic fit and organization fit, they agreed upon the success rate of M&As. According to the companies we talked to, they were in general happy with the results following M&As. This is the opposite of what the literature says about M&As. This helps to answer our question about why so many companies utilize M&As despite the (in theory) poor results. They simply do not agree with the conclusion. From the interviews, we identified that the companies do not seem to think that M&As normally fail. In their opinion, M&As are successful in most cases. This raised the question about how the researchers measure the success rates of M&As compared to companies. We found that the company executives in all firms have a much more broad and general way of assessing the success of an M&A. While researchers and academics measure the success of an M&A as how much added shareholder value it has contributed with, the management of the company consider a much wider array of factors. These factors may be relationships with customers and suppliers as well as relations with competitors and how they position themselves in the market.

Hill (2012) also explains that M&As can be followed by culture clashes, which in turn can lead to high turnover rates. He attributes this to what he calls "organization inertia", the fact that organizations are hard to change. However, cultural problems are not at all a big problem according to our respondents.

Hill (2012) talks about recruitment as an important aspect in companies' internationalization process. Accordingly, one of the most prominent aspects that our interviewees brought up was the role of human resource issues in the context of M&As. The ability to carry through different entry modes in practice seems to some extent depend on whether it is a possible strategy regarding recruitment. This is particularly problematic regarding greenfield investments where the lack of existing staff and company culture may prevent recruitment to the new venture.

One difficult matter of M&As brought up by one of our respondents was dealing with corruption and bad governance on authorities. Such difficulties concerning ethical issues are also acknowledged by Hill (2012). Respondent B felt that their experience in the matter and strict internal rules helped them handle these difficulties.

The high failure rate of M&As that Krishnamurti and Vishwanath (2008) describe is not consistent with the result of our interviews. However, our respondents agree with Krishnamurti and Vishwanath in that clearly defined objectives, setting common strategies and common goals, as well as taking cultural aspect into account can have positive effects on the result of M&As.

13.4 Preferable entry mode

From what we could read from our interview with Respondent A, the choice between M&As and greenfield investments is a very complex decision, and it is not unambiguous in what situation they choose one or the other. He said that in a lack of a suitable candidate to buy they would go for greenfield investment instead. However, he did not agree on the conclusion that M&As therefore would be his preferable choice as entry mode. Instead, he meant that decisions like that are always based on a cost-benefit analysis. However, Simon (1957) states in his theory about decisions rationality that a decision will always be coloured by those people making the decision. As people can never take all variables influencing a decision in consideration, the decision is never optimal but rather satisfactory. Cyert and March (1963) applied this theory to organizations as well.

Respondent A expressed the importance of performing a thorough due diligence prior to a merger or an acquisition. This is something that the transaction cost theory supports. An assumption underlying the transaction cost theory is that companies aim to minimize bureaucratic costs within the company in addition with the costs of exchanging resources with the environment. Companies weigh internal transaction costs against external transaction costs before deciding whether to produce in-house, such as M&As or greenfield investments, or to outsource. In addition, Dunning's eclectic paradigm explains that when a company establishes in a foreign market, additional costs arise from operating from a distance compared to a local competitor. As a result, the foreign company will be forced to have an advantage that offsets the cost that occurs from being a foreign firm. This might come from either having lower costs or by earning a higher revenue. It is also important for a company to see that the merger or acquisition gives locational advantages such as raw materials or low wages. These theories support respondent A's statement regarding the importance of thorough due diligence.

13.5 M&A success

According to the hubris hypothesis (Hill, 2012) the price of a merger or an acquisition in hindsight often turns out to be too high, as management are over optimistic about the prospects of an acquisition. The part about the price turning out to be too high is partly true according to our respondents. However, they do not emphasize this problem. Instead, they are in general happy about the result following M&As.

According to Respondent B, the popularity of M&As has to be seen in the context of where in the product life cycle the product of the company in question is. This is in line with what Dicken (2011) outlined when he described the product life cycle. The entry mode should depend on the product life cycle. Accordingly, company A with a technology-based product chose M&As as a way of buying new technology. Company B, in the telecom industry with a customer-oriented product preferred M&As as a way of buying a new customer base. Company C choose M&As as a way of buying expertise in transportation service sector in other markets.

Despite the fact that they operate in very different industries, the interviewees were very coherent regarding entry modes. As Hill (2008) states, each entry mode are consistent with different advantages and disadvantages. In addition, Chan Kim & Hwang (1992) apply different levels of control to different entry modes. However, our respondents were all in general most positive about M&As. The reasons for this were the speed of the entry available from M&As (in line with Cooper's and Finkelstein's (2013) theories), the costs compared to greenfield investments, and the ability to build strong relationships through M&As. According to them, it is costs, availability of good candidates to buy, and management potential that in the end affects the decision. Management potential they are attributable to cultural integration, and possibilities for recruitment of good people.

13.6 Summary

To summarize, there is a gap between theories behind M&As as a market entry mode, and why company executives chooses M&As. The theoretical logic behind M&As is attributable to speed, competition and risk. M&As are quick ways to enter a new, foreign market. It can also be a way to precede competitors, especially in rapidly globalizing markets. Lastly, M&As provides an already existing profit stream. Apart from this aspect, the acquiring firm also gains tangible assets such as production facilities, systems for logistics and customers, as well as an established brand and local knowledge (Hill, 2012).

Our focus was to see if this is the rationale in practice as well. After conducting the interviews, it seems as these theories are not consistent with what executives emphasize. Instead, they highlight cost reduction and relations. However, they also acknowledge speed as an important factor. It is also interesting that the M&A process in practice seems to be lacking a step consisting of choosing entry mode, or at least this is not a step following identification of a market, which is the step we assumed to precede the market entry mode decision.

Additionally, there is a discrepancy in how M&As are evaluated. Executives have a very different and much more optimistic picture of how successful M&As are compared to researchers. The executives we interviewed agreed on this point, both on the success rate of M&As and the measurements used to evaluate them. In general, they used return on investment (ROI), market share and EBIT as measurements. In conclusion, executives were in general in agreement about most of our questions regarding M&As.

14. Conclusions

14.1 Research conclusion

We found a great difference between the academic theories we read about in business literature and how companies operate in real life from our interviews. One of the most surprising results of our interviews was the, in our opinion, lack of a consistent M&A process. In theory, the different steps in this process should be in a clear order, each step following the previous one. Krishnamurti & Vishwanath (2008) discuss that the location of the investment should be considered carefully, before the decision on whether greenfield investment or acquisition is the appropriate entry mode even can be made. However, from our interview with company A, we got the feeling that they simultaneously decide on both a market and a candidate. Rather than deciding on a market to enter prior to deciding on what entry mode to choose, they seem to always keep an eye open for suitable candidates to buy. When an opportunity arises, they act on it. We asked ourselves whether this really is a strategy, or a way of operations that is facilitated by operating in a prosperous industry where money is not an issue? These answers are however consistent with company B and C, operating in industries with a lot smaller marginal. Therefore, it seems as though this ad hoc approach on choosing entry modes could be common regardless of industry. Of course we would need to conduct more interviews to be able to generalize whether this is true.

From what we could read from our interview with Respondent A, the choice between M&As and greenfield investments is a very complex decision, and it is not unambiguous in what situation they choose one or the other. He said that in a lack of a suitable candidate to buy they would go for greenfield investment instead. However, he did not agree on the conclusion that M&As therefore would be his preferable choice as entry mode. Instead, he meant that decisions like that are always based on a cost-benefit analysis. Maybe this disparity is due to the fact that there is no general way at handling M&As. Instead it is a result of very case-specific factors. The fact that the answers were not always coherent may be a reflection of the reality of multinational companies. The actual choice is less planned and organized than we expected and instead of a much more practical nature. In addition, the process seems to differ from case to case, which makes it difficult to generalize and theorize. The only way to handle decisions regarding entry modes might be ad hoc.

It appears that M&A in most cases are companies' first choice, while they resort to other entry modes such as greenfield investments only when M&As are not a possible option. This proves that M&A are among the most popular entry strategies. It might be an explanation to why M&As are common despite poor success rates.

One of our biggest concerns prior to the interviews was the ability to read something from as few interviews as we conducted. However, the interviewees were very coherent despite the fact that they operate in very different industries. They emphasised the same things, described broadly the same process, argued the same motives and took the same preventive actions. In the end, factors affecting the decisions are costs, availability of good candidates to buy, and management potential. By management potential they listed possibilities for cultural integration, and possibilities for recruitment of good people. They also agreed on the reasons why so many companies utilize M&As as entry mode. These reasons are according to them the speed of the entry available from M&As, the costs compared to greenfield investments, and the ability to build strong relationships through M&As.

The focus on synergies in M&A literature does not appear to be found to the same extent in practice. We believe this might be due to a combination of two reasons. Firstly, synergies might be difficult to achieve in such a rapidly changing world like todays as technology and processes continuously needs to be replaced on a large scale. This eliminates the chances of achieving the synergies that are talked so much about. Secondly, we belive that the increased market shares that a merger or an acquisition leads to will justify the decision of M&A as entry strategy. The only company that we have talked to who recognize synergies as an important motive for M&As is company C. However, these synergies are only attributable to the value chain. As he states, synergies through M&As can be a way of creating larger margins on the total. This is especially true for companies with small margins.

Cultural problems will appear in a later stage than what we focus on in this paper. On the other hand, all possible problems of M&As will affect the choice of entry mode. According to company C cultural problem is usually not an issue. We believe that they have been able to keep cultural problems to a minimum because of their attitude towards international recruiting. As they consider international experts to be their main motive for M&As, this will probably show in how they welcome international employees, which make them feel appreciated. Additionally, this will probably create a ground for a well functioning company culture. Consequently, this will positively affect the success of M&As.

The decision of choosing an entry strategy is in most companies different in every situation. The advantages and disadvantages are weighted against one another in each case according to our interviewees. However, the companies all agreed on the fact that time, cost and relations are important factors affecting the decision of choosing an entry mode. These factors could however be seen to be common for all strategic decisions within business and companies. An increasingly globalized world force companies to expand in a fast pace. Since M&As offer a much quicker way to expand operations, it is often the method many companies resort to. Also, the companies we have interviewed are all active in industries where market shares are essential. Therefore, M&As naturally become the best and fastest way for them to gain further market shares.

The logic behind cross-border M&As from a company perspective differs a lot from research theories. Particularly when looking at the reasons for using M&As as opposed to other entry modes as a means in their internationalization process. Decision-making in practice is a lot more flexible than theories explain. Company executives may be indirect affected by these theories, but are much more practical and adaptable regarding M&A decision-making than theories allow. They also have a more forgiving valuation of M&As than researchers, looking not only at added shareholder value but also at M&As as a way of establishing relationships with customers, suppliers and authorities. These results may be crucial for reaching long-term goals and strategies. This might explain why so many companies utilize M&As despite (in theory) poor results.

We believe that the discrepancy is attributable to what parameters they use to measure the success of M&As. We are critical to researchers use of added shareholder value as a measurement as this can be considered to be a short-term goal, whereas executives testify that M&As highly are long-term actions. In our opinion, M&As should be measured with long-term factors to secure that they are being fairly evaluated. There are several issues with a shareholder value approach. We wonder about at what point in time is it accurate to measure this. We also question how it is possible to secure that other factors does not affect the shareholder value at that particular stage. If the long-term goal leading to a merger or acquisition has a time frame of 15 years, looking at a value after a quarter could be misleading of the success of M&As. It seems important to measure an action in regard to the objective behind the action. Moreover, shareholder value does not mirror results such as enhanced networks and development of stronger relationships with authorities that may be vital for companies dependent on licenses etc. If the goal simply is to enter a new market, how can shareholder value be a good basis for evaluation?

An example of this is that researcher often emphasizes high failure rates, high management turnover rates as well as the so-called hubris hypothesis. Our respondents have not mentioned these issues. They on the other hand have talked about i.e. recruitment issues, which researchers do not emphasize at all.

To answer our research question, the rationale for using cross-border M&As as an entry mode to foreign market seems to mainly be dependent on the nature of the industry a company operates in. Whether the core competence lies within technological know-how or management know-how is vital to the choice of entry mode. However, increased market shares, possibilities of a quick entry, lower costs compared to other entry modes, and reduced competition seems to be a common denominator for every company. Access to new technology, expertise and relations to authorities are also important factors, although with different degrees of importance. Executives may want to believe that the decision on entry mode is well-founded as the theories describe, with carefully performed due diligence and a lot of preparatory work such as cost-benefit analysis, but in reality M&As are always close at hand. In the end, the popularity seems to be attributable to the simple fact that executives do consider cross-border M&As to be a successful means in their internationalization process.

14.2 Suggestions for further research

The process of constructing this thesis revealed additional research of interest. As our delimitation states, we conducted interviews with Scandinavian companies only. However, we assumed that the rationale behind cross-border M&As that they described apply to companies in general. Therefore, an interesting subject for further research would be to see if there is a specific Scandinavian view of cross-border M&As. Another suggestion for further research could be to investigate whether the motives behind domestic M&As differ from the ones behind cross-border M&As.

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15.3 Personal Communication

Respondent A: Vice President. 2014. Personal interview, May 2nd.

Respondent B: CEO. 2014. Personal interview, May 2nd.

Respondent C: Director of Change Management. 2014. Personal interview, May 7th.

Appendix 1: Interview guide

- Who is responsible for cross-border M&A decisions at your firm?

- How does the process of choosing an entry strategy look like?

- Are there any specific motives behind choosing cross-border M&As?

- What are the biggest advantages with cross-border M&As in your opinion?

- What are the biggest disadvantages with cross-border M&As in your opinion?

- Is there a way to avoid these disadvantages in practice?

- What is your experience of the success rates of cross-border M&As?

- How does this compare to greenfield investments?

- Is it easy in your experience to achieve synergies by cross-border M&As? Why?

- Why do you think so many companies utilize cross-border M&As as an entry strategy as opposed to other entry modes?

- In your personal opinion, do you prefer M&As or greenfield investments? Why?