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Post-akvizicione promjene u menadžmentu target kompanija: slučajevi u Jugoistočnoj Evropi

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Apstrakt: Ovaj rad se zasniva na analizi post-akvizicijskih promena, koje su karakteristične za međunarodni menadžment i marketing. Na bazi sprovedenih upitnika i intervjuva, prezentirani su rezultati koji su bili fokusirani na dvadeset četiri kompanije i promene u menadžmentu koje su nastale nakon međunarodnih akvizicija u različitim zemljama regiona Jugoistočne Evrope. Svaka menadžment promena je analizirana specifično sa komentarima i posledicama na budući poslovni opstanak. Na osnovu rezultata istraživanja moguće je definisati više preporuka koje su važne za praktično upravljanje međunarodnih akvizicija, posebno u fazi integracije.

Ključne reči: akvizicija, menadžment, marketing, strategija, finansije

The Post-Acquisition Changes in Management of Target Companies: Cases in South Eastern Europe

Abstract: This paper analyses the post-acquisition changes, which are very applicable for international management and marketing. Based on conducted survey and interviews, the results presented here had a focus on twenty-four target companies and management changes that have occurred after international acquisitions in different countries of the region of South Eastern Europe. Every management change was analyzed separately with comments about its repercussions on the future survival of the businesses. Based on the findings from this research it is possible to define many recommendations important for practical management of international acquisitions, especially for the phase of post-acquisition integration.

Key words: Acquisition, Management, Marketing, Strategy, Finance

Introduction

The importance of international acquisitions in terms of management theory and practice of international marketing is primarily in the fact that this phenomenon involves transnational exchange of different business principles. Problems of international acquisitions are subject of interest among many international business schools. The authors from the British Oxford University (Child et al., 2003) have observed the international acquisitions in terms of country of origin of the acquirer and came to the conclusion that many of the changes that occur in the process of post-acquisition management are global and that they are not specific on the country origin of the acquirer. This primarily refers to the process of cost control and management of human resources, especially in the area of increased training of employees upon an acquisition of a target company. Grotenhuis and Weggeman (2003) have focused on the role of knowledge management in international acquisitions.

According to many surveys, the failure rate of international acquisitions ranges from 49 to 59% (Angwin, 2005), as shown in the Table 1.

Table 1: Data of selected consulting firms on failures of acquisitions

Consulting firm	Year of survey	Method	Failure rate %
Business International	1973	400 questionnaires sent by mail	49
	1978	150 questionnaires sent by mail	48-56
Coopers and Lybrand	1992	Focus interviews with CEOs of top 100 UK companies	54
Coopers and Lybrand	1996	The sample of 125 companies	66
A.T. Kearney	1997	The sample 115 companies	58
Mercer MC	1995	The sample 150 companies	50
Mercer MC	1997	The sample 300 companies	57
Mc Kinsey	1995	The sample 58 companies	58.6

Source: (Angwin, 2005)

Therefore, legitimate question is why many acquisitions do not create additional value for the acquirer? The most important reasons are as follows (Perovic, 2016):

1. Problems of integration and post-acquisition management,
2. The acquisition price is too high,
3. The lack of synergies following the acquisition,
4. Low-quality diagnostic studies (due diligence), and
5. The lack of rational decision-making, so-called 'CEO arrogance'.

The integration between the acquirer and the target company is necessary in order to achieve synergies (such as sharing resources, reducing costs, increasing market). The problem of integration is complicated by the lack of continuity in all phases of the acquisition (prior, during, and after the deal making).

In order to better understand strategic and financial success coming from the acquisitions in the region, it is important to investigate business climate that was influencing dynamics of foreign direct investments (FDI). Since the international acquisitions represented the largest part of FDI in the region, it is possible to make reasonable assumption that the business climate has been positive for increase of international acquisitions in the region. The most prevailing type of acquisitions belong to "privatizations" or change of state ownership to private capital. Official national data (Perovic, 2016) have been showing that Serbia had more than 20 billion US dollars of inward FDI (2000-2010), same stands for Croatia within the same period, Montenegro close to 3 billion US dollars (2000-2008), Slovenia close to 7 billions US dollars (2000-2008), Bosnia & Herzegovina more than 6 billions US dollars (2000-2010), and Macedonia close to 3 billions US dollars (2002-2009).

Methodology of the research

The sample was composed of twenty-four target companies, operating in thirteen branches of the economy, and whose international buyers came from thirteen countries. The changes which have cured in the management of the target companies after the acquisition by international acquirers are different and various. Significance of post-acquisition management comes from the recognition that most of the acquisition fails because of defects in the implementation phase following the acquisition, and not because the research phase before the acquisition. Correlation between successful implementation and the overall success of the acquisition was 83% (Howson, 2006). Further, it is believed that a large proportion of the acquisitions that fail had a cause in the inadequate management after the acquisition. On the other hand, the pre-acquisition factors are bad for predicting post-acquisition performance (Angwin, 2005). Through primary research using interviews and surveys on a total sample of twenty-four target companies from the region of Southeastern Europe that belong to different industries (food industry - confectionery production, fruit, meat, wine, beer, pharmaceuticals, processing and transport of oil; road maintenance; production of glass packaging; chemical industry; telecommunications; banking; cement production) and various countries of origin (United Kingdom, Russia, Austria, Switzerland, Germany, Denmark, Iceland, Lithuania, Hungary, Belgium, Holland, France, Greece), the goal was to identify the changes and systematically explore them.

Analysis of strategic changes

In summary, on the basis of this study, all the post-acquisition management changes can be represented as follows:

Table 2: Summary of all post-acquisition changes

Type of a change	% companies with this change
Focus on the core business	91
Spreading of the corporate culture	95
Integration with the acquirer	87
Increased role of the management hierarchy	71
Increased openness in communication between employees and managers	83
Increased cost control	100
Increased profits	88
Increased financial control and planning	100
Stricter selection of customers and suppliers	90
Tighter planning of new products launching	95
Development of an outreach strategy in the international market	90
Greater application of marketing principles and marketing research	84
Increased quality control	91
Increased modern logistics	95
Increased number of meetings	79
Increased training and educational programs	95
Increased rotation of managers	63
Key managers leaving	67
Reduction of number of employees	63
Increased use of information systems and information technology	95

The goal of the research was related to 'survivors' acquisitions, bearing in mind the high share of failures among total number of international acquisitions. Besides the analysis of post-acquisition changes, the focus was to investigate primarily the strategic guidelines which helped development of the surveyed companies after the international acquisitions, but also to compare results of other authors of similar studies. The first five changes from the table above are strategic in nature, because they are focused on the long term. From these changes, most companies (95%) after acquisitions increased the spread of corporate culture from the acquiring to the target company, which is to amend the attitude of management and employees to the basic values that their company represents. This fact is aligned with

sharing values, skills and competences as a necessity to obtain organizational fit between target and acquiring companies (Lahovnik, 2005), but also with the fact that new capabilities in the target companies have to be developed in “an evolutionary pattern on the basis of the firm’s knowledge, organizational culture, and, possibly, individual value systems” (Meyer, 2002).

The dominant number of 91% of the companies surveyed is focused on the core business, divesting the majority of those segments that have distracted prior management. Such a decision will leave a long-term positive effect on the company. There is a dominant participation of integration between the companies (87%).

On the other hand, 83% of the surveyed companies increased openness in communication, which also has long-term positive effects for the target companies in a way that open communication between employees and managers encourages innovation and creativity, as the basis for business development. Similar studies have also concluded importance of the role of transformative leadership as having positive influence on post-acquisition performance in countries of the region (Savovic, 2017) where encouraging employees delivers positive effects on target companies through their increased dedication and work efficiency (Babic et.al, 2014). The role of the management hierarchy that reflects the important influence of managers on the final result of the company and its long-term development, increased in most companies in the participation by 71%. It is expected that this indicator will increase its importance in the future and bring value to other strategic changes presented in the table above.

Importantly, marketing changes, which were guided by greater application of marketing principles, marketing research, more stringent selection of customers and suppliers, planning and management of international engagement, and the introduction of new products, have a clear strategic orientation, because they determine the success of the target company after the acquisition, not only in the short and medium period. Most of the companies realized a marketing function much more serious than before the acquisition, and it was particularly evident that most companies confirmed this by adopting the principle of planning the introduction of new products (95% of companies). Slightly less, but still dominant share represents 90% of companies having the selection of customers, suppliers and international engagement, raised to a higher level. That is the essence of strategic changes in a different understanding of the importance of marketing, and building marketing organization of companies in a way that clearly shows that the marketing and sales personnel are crucial for the long-term success of the company. It is through the Customer Relationship Management (CRM) system, that marketing becomes an essential guiding lever of any respective business.

Regarding other changes, it is interesting that the same number of companies, 95%, introduced modern logistics and information systems and made HR investments in the implementation of various training programs, while 91% increased quality control. In these changes there was a generally clear sequence. The company defined first focus on the core business, in line with competitive advantages and the criteria of future integration. Then it conducted defensive or offensive restructuring. Defensive restructuring, which is based on the rapid control of costs and downsizing, while offensive is based on the strategy of sales and marketing, characterized by the growth of investment in production, introduction of quality standards, information systems, and new trainings. Offensive restructuring involves significant changes in the management and relationships with employees, in accordance with the above table. In the spirit of offensive changes, comes to the employment growth, although initially after international acquisitions, reduction of the workforce occurred in many organizations.

In the analysis of strategic changes following an international acquisition, three important aspects can be discussed:

- Changes of existing functions,
- The introduction of new functions, and
- The presence of integration.

Certain pre-acquisition functions have changed, such as turnover in key managers, as happened in most of the companies surveyed. Marketing function in most firms changed, as did the relationship with employees, introducing greater openness in communication. Quality control is improved, and staff training increases.

Many new functions have been introduced, which prior to the international acquisitions were not there, as modern logistics, new brand management function, new sales tools, new technologies, financial planning and control, use of modern information systems, the use of strategies for the selection of customers, suppliers and performance at international markets, and the new role of management hierarchies through modern corporate governance.

Finally, integration was performed in most companies. Every type of integration is very specific for each target company.

Analysis of financial changes

A phenomenon of international acquisitions by itself is not the cause of positive or negative results. The changes it brings are the cause of these results. In order to determine if a certain international acquisitions have been successful, there are few methods used in the practice (Jauck, 2009): shareholders returns using stock prices, operating financial indicators, management appraisals via surveys and interviews, and so called alternative indicators (time limit set high which is a constraint for this paper). Since the fact of underdevelopment of stock exchange in most of the countries of South Eastern Europe, other two methods have been used in this research. Now, let's follow the financial results, which were recorded upon acquisition at international examples of several different industries. We have analyzed the eventual profit growth by comparing the results that the target company had prior to the international acquisitions, and within a few years after the acquisition. Although the influence of international acquisitions may follow in relation to the performance of local companies which were not the subject of acquisitions, belonging to the same or similar branch of the economy, this paper did not focus on the comparison with these companies, but only to compare performance before and after international acquisitions for the same company in order to confirm financial success. Among other things, a comparison with other local companies would have to include the assumption that the target company, as a subject of international acquisitions, was likely to be on a higher degree of efficiency in comparison to those that did not attract international acquisitions, as well as the theory reasonably believes (Salis, 2005). Other studies (Savovic, 2016) have also confirmed financial success of international acquisitions in the region of South Eastern Europe.

In this paper different economic sectors (industries) were analyzed, in order to provide a greater degree of objectivity. Each industry is specific, so was the growth rate of profits among the different industries. However, this work has the focus to show the extent to which there has been a change in the financial result of the target company after international acquisitions. For each industry it was calculated an average annual rate of t using the following formula (Perovic, 2015):

$$Po \times (1+t)^n = Pn \quad (1)$$

- Po is the weighted sum of net profit at the industry level in the year when international acquisitions occurred;
- t is the average annual growth rate of profits;
- n is the number of years of follow-up;
- Pn is a weighted sum of net profit in the n year after international acquisitions.

Using the above formula the following comparative table of the change of profit has been created.

Table 3: Change in net profit after international acquisitions

Industry	Average annual profit growth after international acquisitions occurred	Note
Food-industry confectionery	22%	The follow-up period of six years
Retail sales of petroleum products	-8%	International acquisitions of Russian origin into the largest Serbian company in this field; there has been a growth in revenue but falling profits due to high capital investment and restructuring costs; the follow-up period of five years
Oil processing	78%	The follow-up period of three years
Chemical industry	80%	The follow-up period of four years
Telecommunications	21%	The follow-up period of three years
Food Industry-Meat Packing	18.5%	The follow-up period of four years

Source: (Perovic, 2015)

The nature of any industry is defined by the strength of customers, suppliers, substitutes, competitors and barriers to entry (Porter, 2008). Therefore, the changes in the profit depend on specific characteristics of each branch of economy or industry. It is observed that most of the analyzed sectors have high growth rates of profit after international acquisitions. This is an indication that these industries were burdened with high costs and irrational management prior to the international acquisition, so it were many opportunities for change, which jointly led to rising profits in respective years.

Recommendations of the research

As the outcome with practical applications, it is important to define certain recommendations for the academic and professional public regarding post-acquisition management.

Marketing principles should be guiding leverage for the company's development and that was why the marketing changes were critical in most companies. In this regard, the importance and significance of changes that marketing and sales managers heavily contribute to in the total constellation value of a company was introduced, since most companies in the pre-acquisition phase were predominantly production oriented.

Focus on the core business, since it provides a competitive advantage and cost efficiency through synergy with the acquirer. Also, focus implies the need of long-term estimates of future market positions of the target company.

Foster corporate culture because the main reason why international companies have developed corporate culture is the need to preserve the integrity and belief in the proven value, in order to minimize the risk of wrong decisions in repetitive situations. Transfer of corporate culture must respect the specific features of national culture of the country of origin of target companies, as well as micro-culture of the company itself.

Increase the importance of the responsibility of management in final market and financial results, as key managers depend on the overall success or failure of the company.

Increase openness in communication, since open, clear, honest and timely communication between employees and managers, on the one side, increase innovation and creativity important for the long term development of the company, and on the other side, openness means a greater degree of understanding of management and their responsibility for the final results of the company.

The primary instrument to increase profits after the acquisition was cost control, and therefore financial planning and controls should be introduced as the first new functional segment of post-acquisition organization.

It is necessary to define strategy in foreign markets, because in most international acquisitions binding motives were foreign markets, not only the local market.

Increase quality control, which applies not only to the introduction of mandatory standards (such as HACCP), but also to other relevant international standards for the protection of employees and the environment.

Introduce modern logistics, because the management of the physical flow of the company depends on the level of customer service, and thus their loyalty.

Increase the number of training courses for employees, because after international acquisitions it was necessary, on the one hand, to transfer the knowledge and skills from the acquiring company, and on the other hand, increase of staff training was critical in order to meet the demands of the global economy. The trainings were also significant instrument of staff motivation.

Pre-acquisition key managers of target companies should be prepared to be most probably removed after the acquisition. The most 'secure' among these managers were those who build a good relationship with key customers. Also, it is best to plan a structure of post-acquisition management prior to the acquisition closure.

Conclusion

This article has identified both strategic and financial changes in post-acquisition management in the region of South Eastern Europe. Main recommendations as a practical implications of this study were presented, and eleven most important were structured with appropriate explanations, such as focus on core business of the target companies, fostering corporate cultures, management accountability, open communication, financial control and planning and importance of marketing principles on the management, as well as international quality standards.

It should be stated that there are several limitations of the research presented in this paper. Sample size was limited, as well as the number of years of post-acquisition performance monitoring. Future research should follow seven to twelve years, as suggested by management experts (Jauck, 2009).

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