Markus Auvinen

CROSS-BORDER ACQUISITION –
CASE POLAND

Examiners:  Associate Professor Kalle Elfvengren
            D.Sc. (Tech.) Ari Happonen

Supervisor:  Jarkko Rantanen HUB logistics Finland Oy
ABSTRACT

Author: Markus Auvinen
Title: Cross-border acquisition – Case Poland

Year: 2016 Place: Lappeenranta

Master’s Thesis, Lappeenranta University of Technology, Industrial Engineering
and Management
48 pages, 4 figures, 2 tables and 1 appendix
Examiners: Associate Professor Kalle Elfvengren and D.Sc. (Tech.) Ari Happonen

Keywords: Acquisition, merger, cross-border acquisition, cultural differences,
negotiations, integration, logistics

This Master’s Thesis is conducted for HUB logistics Oy, a Finnish logistics service
provider. The Thesis focuses on an acquisition of a Polish company that ended up
failing. Through the lessons learned from the acquisition process and theoretical
framework, an understanding on the factors that affect acquisition failure, is
formed.

HUB was seeking new growth from abroad to implement the company’s growth
strategy. Acquisitions are an effective way for internationalization. Poland was
chosen as a target country because it is an ideal location for a logistics business.
Growth potential is great in the developing markets but the risks are also greater.
Cultural differences and lack of experience contribute to many failed cross-border
acquisitions.

Allocating the necessary resources and time increases the chances of successful
acquisition. Missing know-how and local knowledge can be acquired by hiring
local experts or external consultants. Post-merger integration is the most important
part of any acquisition since it is the phase where new company synergies are
realized.
TIIVISTELMÄ

Tekijä: Markus Auvinen
Työn nimi: Kansainvälinen yrityskauppa – Case Puola
Vuosi: 2016 Paikka: Lappeenranta

Tämä diplomityö on toteutettu HUB logistics Finland Oy:lle, joka on suomalainen logistiikkapalveluiden tarjoaja. Työ keskittyy epäonnistuneeseen yritysostoon Puolassa. Yrityskauppaprosessista opitut läksyt ja teoreettinen viitekehys yhdessä muodostavat kokonaiskuvan tekijöistä, jotka johtavat kansainvälisten yrityskauppojen epäonnistumiseen.


Riittävän resurssien ja ajan käyttö lisäävät onnistuneen yrityskaupan todennäköisyyttä. Puuttuva tietotaito ja paikallistuntemus voidaan hankkia palkkaamalla paikallisia ammattilaisia tai ulkopuolisia konsultteja. Yrityskaupan jälkeinen integraatio on minkä tahansa yrityskaupan tärkein vaihe, koska tässä vaiheessa uuden yrityksen synergieidut realisoidaan.
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<td>Cross Border Acquisition</td>
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<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td>DD</td>
<td>Due diligence</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>IMAA</td>
<td>Institute for Mergers, Acquisitions and Alliances</td>
</tr>
<tr>
<td>I-Model</td>
<td>Innovation based model of internationalization</td>
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<td>LOGY</td>
<td>Finnish Association of Purchasing and Logistics</td>
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<td>M&amp;A</td>
<td>Mergers and acquisitions</td>
</tr>
<tr>
<td>NDA</td>
<td>Non-disclosure agreement</td>
</tr>
<tr>
<td>OLI</td>
<td>Ownership, Location and Internationalization advantages</td>
</tr>
<tr>
<td>PALTA</td>
<td>The Finnish Association of Employers of Service Industry</td>
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<tr>
<td>PLN</td>
<td>Polish currency, zloty</td>
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<td>REM</td>
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1 INTRODUCTION

1.1 Background

Company acquisitions are one of the ways of implementing a firm’s strategy. Mergers and corporate alliances are another examples of an external growth strategy (Grant, 2016). Entry to a new market can also be done through export, subcontracting, licensing or a joint venture (Danciu 2012). Every year a significant amount of Mergers and Acquisitions (M&A) are done (IMAA, 2016). Cross-border mergers and acquisitions have seen a significant increase during the last 20 years (Hijzen, et al. 2006). Acquisitions are often incentivized by changes in operating environment. Emergence of an external possibility or a threat can even push a company to seek new foreign markets. Acquisitions are a way for a buyer company to achieve their strategic goals related to, for example, growth and improving market position. (Tenhunen & Werner, 2000)

Acquisitions are often unsuccessful and probably one of the hardest business processes. A failure in acquisition means that one of the involved companies – acquired or acquirer – isn’t happy with the results because those don’t correlate with expectations. This is often due to expectations being unrealistic because of unfeasible goal setting or management underestimating the complexity of M&A processes (Steger & Kummer, 2007). Acquisition process should be always planned and executed carefully. This reduces the risk of miscalculations and ensures that future projections made before the acquisition will be as accurate as possible and pricing on the acquired company is set at the right level. Post-acquisition monitoring shouldn’t be overlooked in the big picture. (Tenhunen & Werner, 2000)
Successful acquisition achieves strategic goals set by the buyer. For instance, buyer company can establish a stronger position in the market or get positive synergy benefits resulting from the acquisition. Thus, estimates on the state and performance of the acquired company are proven correct. This means that benefits outweigh acquisition price and other purchase conditions creating a positive net result for the buyer. Target of the acquisition also valuates the success or a failure of an acquisition with similar criteria. (Tenhunen & Werner, 2000)

1.2 Goals and restrictions

Acquisitions have become increasingly common in international expansion of companies. Risks involved are often significant, so the outcome of any M&A matters. Cross-border M&A adds another layer of complexity with cultural differences. This Master thesis aims to understand the factors affecting a success of a corporate acquisition. The aim is to understand the basics of acquisition theory and dive deeper into the topic through a company perspective. Company experience provides invaluable insights into the negotiation process and helps to understand the internationalization aspect of M&A. That is why, the thesis project involved a 6-month period observing a Finnish logistics service provider – HUB logistics Finland Oy - who was negotiating an acquisition of a Polish company. I joined in during the planning phase of the upcoming integration of soon-to-be acquired company. Focus of my thesis was going to be about the integration phase of the acquisition. 6 months on and unexpectedly acquisition deal was cancelled. This turned the attention into the reasons that had led to this unfortunate and unforeseen situation. Most of acquisitions fail. Aim of this thesis is to form an understanding on factors that affect the failure of the aforementioned acquisition in Poland, based on the company experience and source material.
Thesis is guided by the following research questions:

- What are the most important success factors in international acquisitions?
- Why acquisitions fail?
- What aspects are specific to cross-border acquisitions?
- How differences in corporate and local culture affect acquisition?
- What lessons can be learned from Poland acquisition?

Theoretical framework seeks to give a reader a basic understanding on the acquisition process as a whole. Every step of the process is being examined to find evidence on the factors that affect the success of acquisitions. HUB expanding to Poland was a first to the company. Internationalization is thus a key component in the acquisition. Thesis focuses on the aspects that in Cross-border acquisitions (CBA) are different from acquisitions that happen in the company’s existing country of operations.

Realm of mergers and acquisitions (M&A) is a complicated one. This Master thesis only scratches the surface on the complex topic of acquisitions. Available information also places some restrictions. Because the negotiation process has failed, the perspective of the acquired Polish company is lacking. Thesis only involves HUB’s perspective on the acquisition process. Since the acquisition made it only to the negotiation phase, analysis on the consequent steps of an acquisition process is purely theoretical and results regarding those processes – mainly integration phase – are purely speculation. Also, the thesis author was only following a single acquisition process so some observed results might be outliers meaning that the results shouldn’t be generalized too much since some observations might be only specific to this particular acquisition.

1.3 Research methods

The Thesis uses three main sources of information: theoretical information, company data and interviews. Theoretical framework of this thesis is based mainly on peer-relieved
scientific papers and articles and books on the topic of acquisitions and mergers. Some online sources are included too in order to give examples on the theory topics. Aim is to use the best and newest sources available while maintaining a theoretical and writing level that would be understandable to anyone who is new to the topic.

Case company of this thesis have provided a broad access to all the necessary information and resources involved in the acquisition. Internal company documentation was made available on all the relevant topics. Experience with HUB gave a great view of the main operations in Finland and Poland since an extensive company tour was included. Vitally, a change was also provided to see the HUB Poland on site in Poznan. Touring the main sites of HUB gave a good understanding of the key activities, organizational structure, values, strategy and organizational culture of the company.

A series of semi structured interviews is used to better understand the key aspects of the acquisition process in Poland. Samples of the interview questions used can be found in the end of this thesis (Appendix). Interviewees include HUB key management in Finland and the entire staff of HUB Poland at the time of the interview. Aim of these company interviews was to increase understanding on business of HUB in Finland and abroad. Secondly, the aim was to gather a detailed understanding on the acquisition in Poland. Few consultants – all experts on doing business in Poland - were also asked about the specific aspects of the Polish market. HUB personnel have been always available for interviews and any questions. Communication was frequent with meetings organized by HUB.

1.4 Structure of the thesis

This Master thesis consist of two key parts: theoretical part (Chapter 2) includes a literary review on the topic of acquisitions with emphasis on cross-border acquisition and acquisition success factors, and an empirical part (Chapter 3) focusing on understand the Case Poland acquisition process. Results and discussions (Chapter 4) form a symbiosis between theory
and practice and explores the results further. Chapter 5 (Conclusions) is the final part in this thesis. Figure 1 outlines the thesis structure chapter-by-chapter.

**Figure 1. Structure of the Master thesis**
1.5 Company introduction

HUB logistics Finland Oy is a Finnish logistics company founded in 1992. As a relative new company HUB has seen solid growth to its current yearly turnover figures of 37 M€. As of now, HUB logistics employs a workforce more than 500 strong. The company aims to continue on the growth track with healthy future growth ambition.

HUB currently has operations in 19 locations. Most of these are located in Finland. HUB main office is located in Kerava. This location has excellent connectivity to rest of Finland through road (highway number 4), rail (Lahti – Kerava main track) and air (Helsinki – Vantaa airport). HUB wants to be as close as possible to customers’ location. Other locations in Finland are scattered across the country. Company is still has vast majority of its operations located in Finland but the future might be different. The current international operations of HUB in Russia, Germany and Estonia might in the near future be accompanied with new operations in Central Eastern Europe.

To differentiate itself in the field of logistics, HUB offers a unique value proposition. Company provides customer with flexible logistics outsourcing services that lead to cost savings for the customer while making logistics operations more efficient. HUB specializes in in-house logistics, value-added services in warehousing, and packaging business. Logistics operations and services are always tailored for individual customer needs. The company also manufactures packaging and thus can provide a wide range of value added packaging and other services to the customer. These also include capital services and consultancy. HUB customer offering hinges on two promises: the customer will have optimized logistics operations and that leads to cost savings.
HUB tailored value proposition:

- Optimization of operations;
- Financing services &
- Cost savings.

HUB focuses its offering to medium and big size volumes since the scale is big enough to achieve significant cost savings. HUB currently has customers from a large variety of fields - from automotive industry to food industry and steel industry to public administration – including some of the biggest companies in Finland and Europe like Sulzer, Finnair, SSAB and ABB.

HUB handles a major part of inbound, in-house and outbound logistics in the factory from its own warehouse located in the factory grounds. The fruitful cooperation has delivered on the core promises of HUB and showcases the usefulness of fully customized customer offering. HUB logistics has invented new services. LOGY (Finnish Association of Purchasing and Logistics) sees HUB logistics as a long-term forerunner in the field and appreciate their way of continuously coming up with innovative concepts. HUB logistics has been continuously taking commercial risks and following their vision to produce added value in customers' processes. Taking risks has paid off. Since 2009 the company turnover has grown rapidly from 5 M€ to current figures of 37M€.
2 ACQUISITIONS

2.1 Internationalization models

Study of internationalization spans almost 80 years since the transactional cost theory proposed by Ronald Coase. According to traditional approach internationalization process moves gradually with the increase of operations starting with exports. And finally growing till the level of foreign direct investments (FDI). (Podmetina, 2011)

Companies have numerous incentives for internationalization. They also have a variety of entry option to a foreign market. Internationalization is usually incentivized by materialized efficiency gains or getting access to additional resources. Internationalization of a company has three main motivations: strategic motive, market motive and economic motive. In strategic terms internationalization strengthens the companies’ market power, strategy and technology acquisition. Marketwise company can broaden its’ market share, enter new markets and get access to new distribution channels. Companies that more actively seek and adapt external input onto their recourse and knowledge bases, will internationalize with a faster pace and more successfully (Jones & Coviello, 2005). Internationalization can also help a firm economically thorough economies of scale or cost leadership for example. Beyond these motivations internationalization decision can purely be based decision of the management to internationalize. (Podmetina, 2011)

Beside the transaction costs model, models of internationalization include life cycle of the product, foreign direct investment (FDI), Uppsala model (U-Model), international business network, the globalization, REM (Reasons for internationalization, Environment & Mode of entry) and eclectic model. Internationalization models are presented with descriptions in the following (Table 1). (Danciu, 2012)
Table 1. Models of Internationalization (Danciu, 2012)

<table>
<thead>
<tr>
<th>MODELS OF INTERNATIONALIZATION</th>
<th>LIFE CYCLE OF THE PRODUCT</th>
<th>FDI</th>
<th>TRANSACTION COSTS</th>
<th>U-MODEL</th>
<th>BUSINESS NETWORK</th>
<th>GLOBALIZATION</th>
<th>REM</th>
<th>ECLECTIC MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced countries best suited for producing a new product</td>
<td>Investing directly into a foreign company</td>
<td>Cost of participating in a market determines whether the company internationalizes</td>
<td>Internationalization process relies on learning and knowledge</td>
<td>Organizational networks incentivize internationalization</td>
<td>Resource production in interaction with partners</td>
<td>Company seeks internationalization from its inception</td>
<td>Contingency model of internationalization with 3 steps: 1. Reasons for internationalization 2. Environment 3. Mode of entry</td>
<td>Internationalization is aided by OLI advantages 1. Ownership (O) 2. Location (L) 3. Internationalization (I)</td>
</tr>
</tbody>
</table>

U-Model of internationalization was formulated by one of the first internationalization researchers. Idea behind U-Model is that companies choose geographically close countries for going abroad. Those nearby countries are then a stepping stone to gradually increasing market share and expanding to new foreign markets. U-model claims that psychological distance has an influence on decision making process and flow of information. The idea, that gained international experience shortens that psychological distance, is at the core of the U-Model (Laghzaoui, 2011). In the current information era, with advances in communication and technology, companies have more internationalizing opportunities. This means on the other hand that cultural and psychological differences have a bigger significance than ever...
before. Here needs to be noted that cultural differences aren’t strongly linked to technology. (Podmetina, 2011)

Another model of internationalization that has more recently emerged, are related to innovations (I-Model). In common with the Uppsala model, I-Model is founded on behavioral theories. I-Model is a stage model that also emphasizes the role of close psychological distance as a driving force in the country selection process in internationalization. Stages of the I-Model are similar to that of a new product adaptation (Laghzaoui, 2011). In its’ core I-Model considers internationalization as an incremental and gradual process. Internationalization is incentivized by company needs, opportunities and resources. A Company changes and adapts new techniques and new in ways in acting on the market as a result of internationalization (Kubičková, 2014). Internationalization can be defined as a learning experience and way to acquire information and innovations, according to the I-Model. (Podmetina, 2011)

Leonidou and Katsikeas (1996) define three general stages of an internationalization process: pre-engagement, the initial phase and the advanced phase. A firm in the pre-engagement step only operates in domestic markets. Though company has decided to begin international exports or has previous experience on similar business. Secondly, the initial stage considers companies that have some international export operations but they are not on a regular basis. In the advanced phase a firm has regular export activities abroad. Gained international experience then is pushing the company to consider other ways of international engagement. (Leonidou & Katsikeas, 1996)

Models of internationalization are constantly developing but many fundamental ideas haven’t significantly changed from times of transaction cost theory. Emphasis has shifted towards networks and culture when research on these fields has advanced and also the world has changed. Business environment has become more global than ever before.
2.2 Cross-border acquisition

Cross-border mergers and acquisitions (M&A) can be effectively used as a tool for internationalization. Reddy (2015) considers M&A as inorganic growth methods where the two companies found an amalgamation. Acquisition Reddy defines as “ownership interest in the target firm by buying the target's assets or equity”. (Reddy, 2015)

Dunning and Lundan (2008) define four conditions that using cross-border acquisition (CBA) as a way for a company to internationalize can provide. First in the consideration are the benefits of ownership gained in the acquisition of a foreign company. These benefits can come in a form access to unique or intangible recourses or as advantages form common governance of cross-border operations. As a result, new company experiences increases in its’ asset value and wealth capacity. Secondly, ownership advantages can amount to an increased operational efficiency as well as improvements in company’s structure. This is seen as a way to use internationalization to add value on the ownership advantages. Furthermore, CBA can provide a location-based advantage in a certain country with institutional side of domestic and foreign environment. Lastly, a vital condition of consistency states that long-term goals, vision and institutional and management systems of the buyer and acquired company should be aligned in the process. (Dunning & Lundan, 2008)

Steps in an acquisition process can be defined in many ways. It is worth noting, that these process steps can overlap each other and often acquisition processes progress in a non-linear fashion. First of all is the development of acquisition strategy, followed by target firm selection phase. After finding the right target for acquisition, negotiation step follows involving consequently evaluation & pricing and legal processes (Figure 2). These three steps end in purchase contract signing followed by business integration into one company. Post-acquisition integration is arguably one of the key tasks in an acquisition and it affects the success of the whole process. (Reddy, 2015)
According to Erkkilä and Valpola (2005), seven steps are involved in an acquisition. From the beginning of the process, those steps are: creation of a company vision that supports acquisition, making of strategic acquisition decision, engagement in acquisition negotiations and due diligence, planning of integration, publication of acquisition, takeover when buyer receives the ownership of acquired company, and finally post-merger integration (Figure 3). (Erkkilä & Valpola, 2005)

CBA process consists of a multitude of tasks and requires complex decisions. First it is important to determine the compatibility of acquiring and target companies. This is done comparing the two in strategic and organizational terms. Second involves addressing challenges posed by negotiation and pricing steps of CBA. Negotiations and due diligence
is the phase, where task complexity of every consequent step starts gradually increasing (Steger & Kummer, 2007). Thirdly, post-acquisition processes pose some challenges like reorganizing of operations to be resolved. Due to the complexities involved in CBA, prior experience tends to boost CBA success rates. This empirical evidence only holds true until a certain point though, meaning that too much experience on cross-border mergers might also be a liability for a company because it can lead to overconfidence. (Dutta, et al. 2016)

2.2.1 Acquisition strategy and target company selection

Acquisitions should always be based on the strategy of the buyer company. A few questions are key: What the buyer aims to achieve with the acquisition and how the acquisition sits with the buyer’s strategy? A variety of strategic reasons can be used as a basis of an acquisition. The following lists some examples of these reasons. (Erkkilä, 2001)

Geographical expansion of operations at home or to new markets is a common reason for an acquisition. Acquisitions can be used to acquire new products to the buyer’s product portfolio or for expanding that portfolio. Beyond products immaterial commodities such as brands or patents can be acquired through acquisitions. Know-how also plays a key role. Buyer might want to expand their technological know-how or acquire completely new technologies. Coming back to geographical expansion, companies can use acquisitions to extend their logistics network. (Erkkilä, 2001)

Economies of scale often come to play in acquisitions. Acquisitions can be an effective way to expand. Acquired know-how and production equipment are enabling the buyer to grow. Bigger scale often leads to improvements in efficiency of operations. Acquisitions might also be used to buy out competition. For example, the Finnish lift and escalator manufacturer Kone has based its growth strategy on this idea (Kone, 2016). Buying out the competition also means that the buyer is more protected against a buy-out himself. Company acquisition is also a way to begin an organizational change within the company. (Erkkilä, 2001)
Once the strategic reasons for an acquisition are being established, the next step involves the charting of potential targets of purchase. A variety of criteria should be considered in this phase to ensure the selection of a suitable company. First the buyer should consider how the acquired company will help them to achieve their vision for the future. Key here is to identify the gap between current situation and the vision outlined in the company strategy. Buyer needs to recognize existing resources and know-how. Need to additional resources and know-how should be specified to match the vision. (Erkkilä, 2001)

Also, it is vital to understand the characteristics of the business environment where the acquired company operates. This is most vital in cross border acquisitions. Trends and future development of the business environment need to be assessed and recognized before selecting the most suitable company to acquire. Competitor analysis is also recommended, especially when entering new markets. (Erkkilä, 2001)

Erkkilä (2001) lists the following questions that the buyer needs to answer before the acquisition:

- How the acquisition strengthens or supports our key competencies?
- Is there new know-how to be acquired for us?
- What are the added value benefits to our customers?
- Can we acquire new methods to our production and management practices?
- What added value and know-how we can offer to the acquired company?
- What are the new possibilities that the acquisition brings to both companies and to the new merged company?
- Why it would benefit the management and staff of the acquired company to become part of the organization of the buyer company?
- How do we convince the acquired organization about the benefits and new possibilities created by the acquisition? How do they benefit?
Before the initiation of the purchase negotiation process, it pays dividends to consider on which level the integration should be done, what kind of management the new merged company requires and does the new organization have the management know-how required. (Erkkilä, 2001)

It’s necessary to evaluate preliminarily what the acquired company offers to the buyer. Synergy can be one key thing and it’s important to see the potential for synergy early in the acquisition process. The screening process of potential companies to acquire wouldn’t be complete without financial calculations on the estimated performance of the acquired company. Beyond first years of operations it is healthy to evaluate financial performance and added value created by the acquisition on the mid- and long term. After these calculations a rough purchase price can be estimated. Financial and other risks always need to be taken into account. Risk assessment shouldn’t be neglected in the pre-acquisition screening process. (Erkkilä, 2001)

2.2.2 Due Diligence

Due diligence (DD) investigation is a vetting process during which, the soon-to-be acquired company is thoroughly inspected. In most cases, Due diligence is an obligation of the buyer side of an acquisition. Involving the acquisition project management in due diligence process improves the success changes in the consequential acquisition process steps of premerger planning and post-merger integration (Christoffersson, et al. 2004). (Blomquist et al. 1997)

Due diligence has become a standard procedure in acquisitions. This investigative procedure is used in order to improve changes of a successful acquisition and to avoid unwanted surprises. Due diligence is a detailed process carried out by professionals in various fields. The goal of the complicated process is to determine whether the target company is suitable for the acquirers needs. Acquirer company uses due diligence to carefully investigate the acquired company in terms of its’ business, accounting and financial statements. Also the legal state of the target company is checked as part of DD. Based on these four aspects an
analysis is made regarding the operating environment, strengths and weaknesses, and operational risks of the target company. Due diligence is carried out with utmost precision in order to form a complete picture of the target company. This is beneficial to the buyer because a well-executed DD helps them to better understand factors that affect the setting of the acquisition price and influence legal and financial security of the acquirer. (Blomquist et al. 1997; Immonen, 2006)

2.2.3 Acquisition negotiations

After the suitable company is selected for acquisition, start the purchase negotiations. First goal of this phase of the acquisition process is to determine whether the acquisition will happen or not. The acquisition price needs to be set so that the buyer feels that it corresponds to the added value created by the acquisition. Usually the premium paid on the acquired company ends up solely benefitting the shareholders of the acquired side, not the buyer (Grant, 2016). Secondly, the buyer aims to collect as much information as possible about the other company. This helps in the integration process of the two companies. Integration will be faster and more profitable this way. Purchase negotiations can end if the negotiating sides don’t reach an understanding on the price or other factors. For example, a Finnish construction company Honkarakenne recently rejected a company acquisition deal, proposed by the Russian company Sistema, based on the company value estimate that was too low (Yle, 2016). Purchase negotiations should also produce a preliminary business plan for the whole merged company or for the new business segment. (Erkkilä, 2001)

Most certainly acquirers have to cope with insufficient information. Assessment of synergies is made more difficult by the lack of data about the acquired company. Access is often restricted. Acquiring company has a limited admission to the target company. This includes target company’s management, supply and distribution networks and existing customers. Lack of data is often combined with lack of experience among management of the buyer company. Nevertheless, deficient experience isn’t always to be blamed since seasoned byers tend to do the same mistakes than the unexperienced ones. Experience doesn’t often lead to
better synergy estimations in the subsequent acquisitions. It is all about the realized synergies lacking behind on the estimates which is often due to failed post-merger integration (Larsson & Finkelstein, 1999). Estimations aren’t usually helped by external parties or consultants either since they aren’t willing to make a commitment on a required level of detail that would fix misinformed premerger synergy estimates. (Christoffersson, et al. 2004)

A diversified skillset is required from the purchase team. The negotiations involve a lot of different aspects. Acquisition team should be selected based on competency and problem solving abilities in situations with insufficient information (Christoffersson, et al. 2004). Members of this team need to be familiar with the process. Expertise in purchase negotiations is best accumulated with experience. Experience also comes in handy with negotiation tactics. Good negotiation skills are essential in ensuring the best negotiation result for the buyer. Financial expertise helps in determining and negotiating the right acquisition price. Business know-how is also valuable since the acquisition process usually involves lots of key activities of the acquired company such as customer- and supplier networks, product development, technology and production. (Erkkilä, 2001)

Purchase process involves risks that need to be accounted for. The buyer firm needs to protect itself from potential risks of negotiations failure or after acquisition problems. The buyer needs to protect their immaterial equity as much as the material one. Risks of know-how and key personnel leaving the acquired company are real. Thus human resource management is one the priorities of the purchase team. Finally, the team needs to start preparing and executing integration plans during the purchase negotiations, as told before, to ensure fast integration after company acquisition. (Erkkilä, 2001)
2.3 Pre-merger planning

Pre-merger planning is a vital step that is unfortunately often overlooked. To ensure the best odds of a successful integration, the person responsible for integration should be involved in the acquisition process from the start of the purchase negotiations. This integration leader in other words should be present in all the key activities in the integration process starting from company strategy formulation process. Kaija Katariina Erkkilä has written extensively about about post-merger acquisition in her book “Haltuunoton ja yhdistämisen haasteet” (2001). This book was the foundation for the following chapters covering pre-merger planning and post-merger integration.

Preplanning of the post-acquisition integration process involves a myriad of items starting with the goals of the integration process. Another important thing is the analysis of expected costs. Decision needs to be made, who are responsible for the integration preplanning. Integration process can be run with concentrated or dispersed leadership. It needs to be clear, what parts of the companies are integrated and in what timeframe. (Erkkilä, 2001)

Integration process often involves a lot of changes in the new company. Will there be a new management appointed or does the old management keep their position? How to adjust the personnel for the requirements of the new company? The new company might need a new name to unify the brands. Branding is also big part of communicating the change that is caused by the acquisition. Integration preparation team needs to plan the communication for the day of the acquisition publication. Stakeholders can be kept informed with events and marketing for example. (Erkkilä, 2001)

The first 100 days after a company acquisition are critical in the integration process. Making an operational plan for this period would be advisable. Customer and supplier relations should continue uninterrupted to ensure the best results in integration. Plans are also needed for the support structures of the new company such as IT and reporting. Beside the
Integration planning team, the integration team should be formed before the integration process begins. Integration teams should be in control of different segments of the process. (Erkkilä, 2001)

Financial planning of the integrations costs is a part of pre-integration planning. It may contain the expected synergy savings. On the other hand, there might be negative synergy costs. Also communication, takeover activities, integration teams and travel generate costs. (Erkkilä, 2001)

Regarding integration planning, professionally carried out synergy calculations and synergy implementation plans are critical success factors in acquisitions. Synergy describes the desired post-acquisition effect when the new company will be more than just the sum of the acquired and acquiring companies. Synergy advantages can be acquired from economies of scale and scope, passing of tacit knowledge, utilizing best practices, opportunity and capability sharing, and, on many occasions, the invigorating effect of merging of two companies (Christofferson, et al. 2004). Acquisitions often fail when enough time isn’t allocated towards integration phase planning by the senior management. Also the negative consequences that an acquisition has on the acquired company are often underestimated to a critical effect. (Katramo et al. 2011)

2.4 Post-merger integration

Particularly in CBA, post-acquisition integration phase is named as the most difficult part in the acquisition process. This is because in this final step of CBA the potential synergies and added value benefits become tangible. Challenge is to construct a system that best enables the realization of these intended benefits. The value of a business acquisition is generated only through integration and processes following it. (Erkkilä, 2001; Dakessian, et al. 2013)
First 100 days are usually crucial for laying a foundation for a successful integration after the acquisition. This is the timeframe during which the main operations of the new company should be defined, organizational structures locked in place, major changes in personnel carried out and key activities outlined. Operative support systems such as internal quality control tools, are also expected to be working after the first 100 days. The period of 100 days after the company acquisition act as a honeymoon period for the management. This is the opportunity to get the staff and stakeholders to believe in the acquisition, commit to the vision and strategy. Support from staff and other stakeholders enables the new company to implement the necessary actions required by that vision and future strategy. (Erkkilä, 2001)

100 days are critical also in achieving the goals of the takeover by the buyer company. Erkkilä (2001) tells us, that there are four major categories of takeover goals:

- Financial goals,
- Synergy based goals,
- Goals on the schedule and functionality of merged operations and
- Business operational objectives.

In order to create a complete picture to the buyer and the acquired company, a management meeting lasting up to three days is usually needed. This meeting is vital and requires the attendance of all the key management figures involved in the acquisition. (Erkkilä, 2001)

Critical factors and activities during the takeover can be divided into four categories (Erkkilä, 2001):

- Strategic direction and vision,
- Operative support structures,
- Business processes and
- Values, organization culture, operational approach and policies.
Takeover should result in approved plans for the new company. These plans should include concrete and measurable goals, timetables, listing of responsible personnel and cost estimates for a variety of topics concerning the new company. First topic is the key decisions that are needed for implementing the company strategy. Plans should include also customer management and the merging of key business and support structures. Proposal on new the organization structure including personnel changes need to be in the plans too. It would be also useful if the plan created in the takeover process outlines values and corporate culture in the new company. Finally, these plans include a communication strategy for the future. (Erkkilä, 2001)

2.4.1 Human recourse management

Human resource (HR) management is one of the key focuses in any acquisition. By default, an acquisition will manifest itself in strong feelings and uncertainty among the staff of the acquired, and even the buyer, company. Many employees don’t know what will happen to their position in the new company and they are afraid of change in general especially if they aren’t receiving enough information or feel not in control. Often the management from the buyers’ side tends to forget the effects and pressure for change that an acquisition might have on their own personnel. Way of thinking should be always based on the idea that an acquisition will inevitably change both companies and organizations involved. Changes shouldn’t only happen in the staff of the acquired organization. (Erkkilä, 2001)

Employees in both sides of the acquisition have often a lot unanswered questions. According to Erkkilä (2001) these questions are:

- How will the acquisition affect me personally?
- Will I keep my job?
- What will my salary and contract of employment be?
- Who is responsible for the decisions affecting me?
- How are decisions related to my position made?
- Who is providing me information?
In order to build a successful organization, the following criteria should be followed. Personnel decisions need to support the achievement of strategic goals. Always the best candidate should be chosen for a position instead of picking the previous person responsible or a friend. Right person for the right position should be the motto. Things to avoid are political appointments of personnel or just picking the new staff from the buyer company. (Erkkilä, 2001)

The integration phase of an acquisition is best aided by concrete tasks that are performed with both organizations involved. The importance of resistance needs to be emphasized. Integration process without resistance indicates ongoing uncertainty and lack of trust toward the new management. Resistance is an integral part of change, learning and most important of all: building of trust. Henceforth company management should measure and follow the pressures on employees caused by change. (Erkkilä, 2001)

Several good indicators can be used to measure these pressures. Decline in productivity and profits are good indicators. Also it is forth keeping an eye on changes in sales or customer contacts. Rise in customer complaints and increased dissatisfaction for the supply chain are bad indications. Increased pressure during organizational change might also trigger some employees to resign or to be absent from work more frequently. Participation rates on corporate events can also be used to measure staff stress and tension in the organization. Essential precursors in a successful acquisition are a clear allocation of responsibilities between different groups and processes and making the necessary recourses available to them (Katramo et al. 2011; Erkkilä, 2001)

Lack of management credibility on the buyers’ side can have negative consequences on the acquisition. Empty promises don’t help in building trust to the new management. Management of the merging company should take action to achieve credibility amount the new personnel. Integration process and decision making shouldn’t take too much time. Often the management on the buyers’ side attempts to merge the acquired operations and staff to its’ own former practices without seeking to utilize good practices from the acquired
organization. This is a mistake. Rarely the former practices are the best ones for the new company and forceful change only creates unnecessary resistance among the personnel of an acquired company. (Katramo et al. 2011)

### 2.4.2 Integration process leadership

One of the key signs of a successful acquisition during the process is a professional, experienced and committed project leadership. Main task of the leadership team is to enable the acquisition project to be completed. This cannot be achieved without support from senior management. Acquisition project leadership also needs to be kept inside the information loop considering all the information affecting the acquisition. Risks increase if the people leading the integration are denied access to necessary information which means that decisions will be based on misleading or inadequate information. (Katramo et al. 2011)

The buyer company usually appoints a manager for the post-acquisition integration. This person will be responsible for implementing the integration plan. Integration project manager is responsible for meeting the goals set in the integration plan. To ensure best changes for a successful integration, integration manager should be appointed at the beginning purchase negotiations. And the project should be completed around 100m days after the acquisition – after the takeover phase has been finished. (Erkkilä, 2001)

Tasks of the integration project manager include participation in the purchase negotiations and organizing integration activities between the negotiating companies. It is vital to monitor that project deadlines are met as agreed. Integration manager also acts as a bridge between the buyer and the acquired company. He coordinates communication between the employees of the two companies. Communication is vital in an organizational change. Even the smallest successes should be brought to the attention of the employees. Motivating and cheering the employees of the new merged company is part of the integration managers’ responsibilities. Also the unwanted decisions like layoffs should be done quickly in the integration phase. Leader of integration needs to listen and be able to find quick solutions to arising problems
during the project. Essentially the job of an integration manager means being a change manager. Integration teams need to be pushed find new solutions and approaches when the new merged company is being created. (Erkkilä, 2001)

2.4.3 Communication

Communication is an integral part of a business acquisition. It aims to convey information about the reasons behind the reasons why the buyer has embarked upon an acquisition. Communication focuses on the added value generated by merging two businesses and needs to instill the buyer vision for the future to the staff and stakeholders of the acquired company. A key element in acquisition communication is the statement from the management of the buyer company, detailing the reasons behind the acquisition. This statement contains the buyers’ future vision for the company and a description how the acquisition will help with that vision. Statement for the buyers’ management outlines the immediate added value benefits from the acquired company, the added value generated for the acquired company and the long-term value expected to be generated by the acquisition. (Erkkilä, 2001)

New company name is of a key importance in the integration phase communication of an acquisition. That name should be known when the purchase is confirmed if the operations of buyer and acquired company are to be unified at this point. Important target groups of acquisition communication include employees, clients, retailers, sales agents, suppliers, subcontractors and capital markets. According to Erkkiilä (2001) communication schedule can be divided into four parts: announcing the acquisition, verifying the acquisition if this is a different date than the announcement, takeover phase which is the usually the first 100 days of operations and communication during the integration phase and time of resuming normal operations. (Erkkilä, 2001)
2.5 Acquisition success factors

Both organizational and cultural differences pose a challenge throughout the CBA process. This phenomenon is called double-layered acculturation. In order to achieve good success rates, company should aim to lower cultural and institutional barriers. Additionally, facilitating the transfer of knowledge and capabilities and creation of a positive cooperation climate help to boost changes of a successful CBA. Instilling a systematic cultural and structural change into both acquiring and target companies is key in successful cross-border acquisition. Finally, supporting key talents in both companies is essential during the process. (Dakessian, et al. 2013)

Most often after an acquisition sales and profit figures for the new company dip in to red. This is usually due to unexpected decline in sales or higher than projected operation costs or both. These phenomena of declining sales and profits might come as nasty surprises if a company looks too much inwards and neglects sales activities. Even though these initial losses commonly occur in acquisitions, they might have catastrophic consequences. Deep and long-lasting decline of sales might create a panic reaction in the buyer company. Under pressure the management then makes error decisions, loses key personnel and the integration process gets derailed. Planning before the integration and with maintaining communication throughout the process the sales decline can be combatted by reducing the impact of negative synergies. (Erkkilä, 2001)

The success of an acquisition is best assessed in several stages. Straight after the acquisition the deal might seems good or bad but that perception might still change depending on the outcome of the consequential phases of the process. In the end an acquisition that seemed great in the beginning might end up a failure. Erkkilä (2001) lists good moments in the acquisition process to survey current strategy. These should occur after company selection, after the purchase phase, since first 100 days of integration have passed and about one year after the acquisition. (Erkkilä, 2001)
It is vital to comprehend that a clear individual piece of criteria that defines a successful acquisition, doesn’t exist. In a general level there are few key profitability indicators for an acquisition. Sum of positive synergies, negative synergies, generated added value and integration costs roughly defines the total profitability of an acquisition. (Erkkilä, 2001)

In a successful acquisition strategic goals of the buyer are met, synergy benefits become reality and the merged company generates added value. Also other signs signify a successful merger. For instance, personnel start talking about the new company using inclusive expressions like “we”. This typically takes time especially on the acquired side: well over a year until “we” becomes a common word to describe the new organization among its’ employees. From a financial standpoint merger is successful, when the post-merger sales and profits are equal or better than before the acquisition. Transition to normal operations happens quickly in a successful acquisition. Finally, after an acquisition success, stakeholders in the merged company feel that the acquisition was a positive thing and that it creates new opportunities. (Erkkilä, 2001)

Epstein (2005) outlines six critical success factors for any merger or acquisition. The factors are the following: strategic vision and fit, deal structure, due diligence, premerger planning, post-merger integration and external factors. Table 2 outlines key aspects of these success factors.
Table 2. Acquisition process success factors (Epstein, 2005)

<table>
<thead>
<tr>
<th>ACQUISITION SUCCESS FACTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRATEGIC VISION AND FIT</td>
</tr>
<tr>
<td>Successful strategy and vision</td>
</tr>
<tr>
<td>Selected target company fits the strategic goals</td>
</tr>
<tr>
<td>DEAL STRUCTURE</td>
</tr>
<tr>
<td>Correct acquisition price</td>
</tr>
<tr>
<td>Payment method with minimized liabilities</td>
</tr>
<tr>
<td>DUE DILIGENCE</td>
</tr>
<tr>
<td>Carefully executed DD</td>
</tr>
<tr>
<td>Understanding of the target company</td>
</tr>
<tr>
<td>PREMERGER PLANNING</td>
</tr>
<tr>
<td>Setting up the integration process</td>
</tr>
<tr>
<td>Communication, HR, leadership</td>
</tr>
<tr>
<td>POST-MERGER INTEGRATION</td>
</tr>
<tr>
<td>New organization creation</td>
</tr>
<tr>
<td>Merging of company cultures and operations</td>
</tr>
<tr>
<td>EXTERNAL FACTORS</td>
</tr>
<tr>
<td>Outside factors influencing an acquisition</td>
</tr>
<tr>
<td>Business environment changes</td>
</tr>
</tbody>
</table>

2.6 Acquisition failure

Studies show that even more than half of acquisitions end up in a failure (Erkkilä, 2001). Merely 31% of acquisitions can be called successful. This means that the acquisition has provided gains in the form of either increased stock prices, improved efficiency or increases in returns on investment. Depending on the source from 50 to 70 percent of acquisitions fail to reach their financial or strategic goals so are labelled at least partial failures. While these figures are shocking, one needs to bear in mind that some acquisitions are doomed from their inceptions and acquisition success shouldn’t necessarily be assessed solely on financial criteria. (Katramo et al. 2011)

Acquisition and merger failures are commonly driven by differences in organizational culture. This creates a cultural conflict in an acquisition process. Failure to coordinate activities so that the conflict is resolved, can be identified as one of the reasons behind widespread failure of acquisitions. A statement can be made that companies often
underestimate the risks in this area. Possibility of cultural clash or a failure in culture integration is overlooked which usually leads into acquisitions that were unlikely successful from the get-go. Research shows that cultural differences negatively affect the performance of both company employees after an acquisition. Companies routinely downplayed this performance drop in their predictions. Evidence can be found that cultural differences lead to misguided blame inside organizations and often to cultural conflicts as well. These phenomena observed suggest that cultural differences have a key role in the success of M&A processes. (Weber & Camerer, 2003)

Several other factors can lead to undesired outcomes in acquisition. Choices along the acquisition process can be proven to be wrong later during the process. This can mean, as an example, choosing the wrong company for acquisition, paying an overestimated acquisition price or making the acquisition at the wrong moment. Picking the wrong company can be regarded as one of the most common problem in acquisitions. Such mistake can be usually attributed to the lack of examination on the acquired company. The acquiring side should be compatible with the target firm regarding company structure and operations. Compatibility is a tricky subject to evaluate which more or less comes down to synergies. Utilizing due diligence reporting to the fullest is usually the best way to avoid the pitfall of selecting a wrong company for acquisition. Another significant reason for acquisition failure is the lack of a sufficient monitoring and reporting system. Third major reason for a failed acquisition, is the lack of necessary skills and competencies in management of the buyer firm. These competencies can be gained through external consultancy. Most common reasons for acquisition failures according to Erkkilä (2001) are differences in company values, incompatible corporate cultures, different leadership methods and lack of communication. (Katramo et al. 2011)

Acquisitions usually have significant risks. For example, unrealistic goals might lead to an unsuccessful acquisition. Loss of customers or sales is another risk. It is also easy to overestimate the synergy benefits. A slight mistake in synergy calculations can fault an acquisition when entering post-merger integration (Christofferson, et al. 2004). Loss of key personnel might mean that the acquisition fails. Furthermore, lack of integration planning and execution can end the acquisition. Lack of planning can also lead to a prolonged
integration process and cost overruns. It is also risky to leave some important factors like environmental impacts out of the consideration during acquisition negotiations. (Erkkilä, 2001)

2.7 Summary

In summary, acquisitions and mergers are complicated processes with each proceeding step being more critical for achieving the best possible synergies, than the previous. A high rate of acquisition failure points to the importance of careful planning: in target company selection and integration pre-planning. An integration team has to be adequately resourced and skilled to be able to navigate cultural differences and complicated negotiations. Overestimating synergies, lack of communication, not addressing cultural differences, choosing the wrong target company, not utilizing due diligence and inadequate risk management are common pitfalls for cross-border acquisitions.
3 HUB CASE POLAND

This chapter focuses on the acquisition process of HUB in Poland. Acquisition is explored step-by-step starting from formulation of internationalization strategy of HUB and concluding on the reflection of factors that led to the termination of the acquisition process. A timeline will be formulated to better understand the progression of the process. Lessons learned documentation will conclude this empirical part.

3.1 Growth strategy and vision

The story of HUB is one of growth. The company has made great strides in field of logistics in Finland and other regions. Turnover growth has been phenomenal in recent years, considering the economic downturn occurring at the same time. As an innovative logistics, financing and packaging service provider, HUB has been able to more than hold its’ own in the increasingly competitive market.

Despite some international branches in Germany, Estonia and Russia, majority of HUB’s revenue has been concentrated in Finland as of the time before setting up office in Poland. Foreign branches of HUB at that time could be described as geographically (Estonia and Russia) and in terms of business culture (Estonia and Germany) close to Finland. Geographic proximity makes sense since the scale of these foreign operations suggests that they have more of a supporting role for the core business operations in Finland. For example, packaging factory in Russia manufactures packaging materials for the use in HUB’s sites in Finland.

The recent financial crisis has affected the logistics industry in Finland. The Finnish Association of Employers of Service Industry (PALTA) reports that in Q4 of 2015 the total turnover fell slightly (0,1 %) compared to Q4 of 2014. The biggest factor that contributed to this fall is the plunging Finnish foreign trade. Despite this negative trend PALTA predicts
moderate growth (T1) for the Finnish logistics industry in 2016. Currently the total turnover of Finnish logistics companies accounts to over 100 B€ and it employs around 120,000 personnel (PALTA, 2016).

With a stagnant Finnish logistics market HUB might not have been able to sustain its’ growth pace of early 2010’s. Thus internationalization becomes the logical next step. Uppsala-Model of internationalization would provide a relatively easy solution: internationalization is seen as a gradual process starting from geographically closest locations (Podmetina, 2011). Expanding operations to Estonia, Russia and Germany can be still traced back into similar way of thinking to U-Model. “HUB logistics is rapidly developing as the fastest growing logistics partner for capital, information and material handling.” states the company vision (HUB logistics, 2016). To keep on track being on that fastest growing logistics partner mentioned in the vision, HUB chose a bolder approach: making a growth strategy that culminates in expanding into Central and Eastern Europe (CEE) logistics market.

3.2 Expanding to Poland

Among CEE countries there was a clear standout country to be selected early on: Poland. Several factors support this country decision. First, Poland is at an ideal location for a logistics company between the economic giant of Germany and rapidly developing Central and Eastern Europe region. Poland acts as a natural logistics hub with lots of Finnish companies and such giants as Amazon establishing operations - due to the good location - in the country (Talouselämä, 2015; Ministry of Treasury, 2014).

Timing is the second factor in favor of choosing Poland as the target country for internationalization. Several consulting professionals working closely with Polish market mentioned that the opportune timing for Polish market entry is right now. One consultant described Poland as a “dream for a new business”. Rapid growth rate of the Polish economy was highlighted. This included the mention that Poland is currently the single largest
recipient of EU funds of any EU member. This is positive sign for a logistics company: EU funds go mostly towards developing infrastructure that has a key role in any logistics related business. Poland was described to have a strong consumer economy and drive to develop by interviewees who are experts on Polish market. Poland is still a developing economy, bouncing back from the Soviet times. This means that general operation cost level for business is significantly lower than in more developed Western European countries.

Significantly cheap labor and operational costs compared to Finland act as a powerful internationalization incentive. HUB identified this as one of the core reasons why Poland was selected. Indeed, an average Polish gross monthly wage averaged in 3,399.52 PLN (Polish zloty) or around 800 € (Embassy of Finland, 2012). This figure is many times lower than the average Finnish salary. Poland hasn’t joined Euro currency which also helps to explain lower prices. Despite being cheap in comparison, Polish labor is skilled, motivated and creative, a consultant points out. Labor force has a high skill level at least in part because of the country’s many universities and high percentage of young people in the demographic pyramid. Consultant with knowledge on Poland points out that high motivation is in part due to the high unemployment so people tend to swap jobs seldom and try to do their best to secure their current employment.

Expanding to Poland from mainly operating in Finland comes with challenges too. Business culture has significant differences between Poland and Finland. Poland also has a different language and culture. HUB recognized the risks in expanding to Poland early on. From the start of the process, the company used external experts and consulting companies that provided HUB with invaluable insights into Polish markets. Without external know-how Polish market entry might have no hope of succeeding.

With external consultancy help HUB started looking for the right way for market entry in Poland. This process began in late 2014, following the work on company strategy that had international market operations as one of its corner stones.
3.3 Company selection

Firstly, after the market selection, HUB needed to decide on the method of market entry. According to Polish law, companies or individual have several different ways of conducting business in Poland, such as: joint-stock company, partnership or a limited liability company. “Limited liability company is the most popular form of economic activity for foreign investors in Poland” (Embassy of Finland, 2012). As an involved member in the acquisition put it: HUB had 3 options – acquisition, founding a new business or market entry through customer partnership. HUB decided on the favor of acquisition firstly because they lacked experience on Polish market. Second important factor was the possibility to utilize existing customer base of the acquired. Acquisition would also allow a fast entry into Poland. Now the hurdle became target company selection.

Early steps on the Polish target company selection proved to be complicated. First market overview didn’t produce any viable target companies as a result. All the proposed logistics companies operated in a different sector of logistics than HUB’s business so no further actions resulted on those leads. In this case the consultant hadn’t understood HUB’s needs correctly. This isn’t an unheard-of problem when a relatively small company asks a big consulting firm for advice and don’t receive enough personalized services.

Luckily the right person was found at the right time. Through a Finnish expert on Polish markets a suitable target company was found from Western part of Poland. Another consultant described Western Poland as an ideal location to set up a business, because it differs from East of Poland in few ways. First, infrastructure is more developed in the Western part of Poland, which also became clear to HUB management on their initial visits, at beginning of the process, to several parts of the country. Also work ethic differs from the East so that employees tend to be never late.
The target was very fitting to the requirements of HUB. Great match for the existing core business in Finland. A family owned business just like HUB. Target was operating in a niche market with little pre-existing competition. Polish company selected for acquisition had a turnover of around 10 M€. A major growth potential for HUB with 37 M€ current turnover. With the growth potential also came a risk of merging such a big target into HUB’s operations. Moving past the risk for now, both parties – acquired and acquirer had major initial interest on making a deal.

Discovery of the potential target had happened in January of 2015 and officially negotiations started five months later. Before that ownership of the target had been contacted and it was established that the company was indeed on sale. Negotiation had an encouraging start since the target company upper management was actively involved and responded quickly.

3.4 Acquisition negotiations

May 5th 2015 became the official starting date for acquisition process in Poland. So far everything had gone according to plan for HUB: country selection matched the strategy and target company had promising synergy possibilities. Also on the Finnish end the lean management organization and effective operations were prepared for the financial strain that an acquisition would present in the short term. HUB was feeling very positively about the upcoming integration process for good reasons. At the beginning HUB projected that the takeover would be scheduled for the end of the year.

Negotiations of acquisition progressed quickly in the early stages which shows the commitment of both negotiating sides. Within first two weeks of the purchase negotiations first face-to-face meeting with owners of both companies was organized and in a month an initial purchase price offering was presented. Members of HUB’s acquisition team and other parties involved describe the first 4 months of negotiations as time of rapid progress.
According to standard practice a non-disclosure agreement (NDA) was signed between the parties. An external consultant delivered the acquisition price evaluation because HUB didn’t have the necessary resources for making the evaluation themselves. Results of the price evaluation were a slight disappointment to HUB that had expected a lower figure. This is the only view presentable, since there hasn’t been a change for the author to interview the target company. Regardless, in early June target and buyer company agreed on the price valuation proposed by the external consulting company.

In July of 2015 ownership of the acquired company visited Finland to be shown around HUB’s locations. This was the change for HUB to showcase best practices in the company. Exhibiting company values would reassure the target ownership that the new company would be in good hands. Later same month Sales and Purchase Agreement (SPA) negotiations were initiated. In August the due diligence (DD) was completed on the target by a member of the Big Four accounting firms.

Completing DD was the last major success in the acquisition negotiations and one of the positive results of the whole process as some people involved in the negotiations recall. Since August SPA negotiations were ongoing with no ending. Negotiations involved regular visits to the target ownership and meetings with consultancy company with regards to Due Diligence. After August acquisition negotiations started becoming stagnant and the acquisition process would never lead to the handover which in initial estimates was projected for early 2016.

3.5 Integration planning

Parallel to the ongoing SPA, HUB started preparing to the post-handover integration. Early on the buyer had management for the acquisition appointed and the relevant personnel moved to Poland to be involved in the acquisition at the maximum capacity. HUB also hired new talent on the financial side. Also few Finnish experts of Polish markets residing in
Poland were actively involved in establishing the contact network, managing key accounts, providing market analysis and insights, and helping as a communication link between all the parties – internal and external – involved. All of these extra personnel resources proved to be invaluable during the whole process. Integration teams were assigned to various sectors of integration activities and every team included senior personnel from both companies as is appropriate.

At the beginning of the year 2016 first two Polish employees were hired in the newly established HUB Poland offices in the city of Poznan. With this recruiting the need of local know-how was further addressed and prominence of HUB’s engagement in Poland enforced. In my visit to Poznan, I found the team in Poznan highly competent and capable of achieving HUB’s vision for Polish market expansion. Facilities in the Poznan office are brand new and it’s located in a prime business park location within one of the biggest cities in Poland. Poznan is situated half-way between Berlin and Warsaw on the major highway that runs between the two capitals. An ideal location for a logistics company.

HUB’s Poznan office and integration teams were highly involved in the acquisition negotiations from the beginning. Still this wasn’t enough since Polish culture and corporate culture are very hierarchical. Consultants working with Polish markets note that it is important to meet with the appropriate person. If other negotiating party represents a lower managerial level, negotiations might not proceed at all when doing business in Poland. In this case HUB had limited access to the acquired company and much of the negotiations had to be done directly with the target ownership. This meant that the target presumably expected the owners of HUB be representing the buyer. This definitely complicated things since HUB’s management and owners were based on Finland. Progress slowed down or even stopped without them in the negotiating table. Polish value face-to-face communication highly, a consultant notes.
3.6 Ending of acquisition process

In 2016 deadline of the handover started dragging on. Sales and Purchase Agreement negotiations were still ongoing. New issues arose often in negotiation table. HUB was doing its’ best resolve these dilemmas as fast as possible. Prolonged negotiations were taking their toll on both sides no doubt. This not an ideal situation to maintain optimism in a successful negotiation outcome.

Communication played a key role in the negotiations. HUB realized this and a marketing video, aimed for the target company personnel, was produced. The video showcases HUB’s core values and internationality. In the acquisition negotiations new gate keepers emerged when talks became increasingly dominated by the legal aspects. Lawyers on the targets’ side were clearly ill-equipped for the scope of the negotiations. Eventually after a lot of delays to the negotiations, acquired company changed into using legal services of a major consulting company. This helped but only temporarily. At beginning of summer 2016, about one year after acquisition negotiations had started, the target suddenly informed HUB that they aren’t for sale anymore.

A surprise end to a long process meant that risks on HUB’s side were realized. Most of the invested money and resources had been wasted. With a big potential come also more significant risks. Risk management is always in a key role in complicated acquisition processes. Prolonged negotiations were gradually increasing the overall risks involved. Investment of money and resources was constantly needed to keep the process going. Additional staff also needed to be hired during negotiations. Consulting and legal services also require more money as the acquisition process goes on. The biggest potential risks however have to do with maintaining existing customer base in the target company. With limited access to target company’s network and contract deadlines approaching HUB was in danger of losing major customers of the target even before handover. This risk was highlighted in the target company valuation report: “HUB should closely monitor the contract renewal status during the entire transaction, and incorporate adequate risk
mitigation measures in its target company valuation and offer to the seller.” If this risk had been realized, lot of the initial synergy estimates might have had to be readjusted.

### 3.7 Timeline

HUB’s acquisition process in Poland lasted from November 2014 to May of 2016. It is a longer timeframe than originally predicted. Highlights of the process are listed on the following timeline (Figure 4) where the dates are based on interviews and internal documentation.

![Timeline for HUB Poland acquisition process](image)

**Figure 4.** Timeline for HUB Poland acquisition process
3.8 Lessons learned

Finally, lessons learned documentation acts as a conclusion to the investigation of HUB logistics’ acquisition process in Poland. What could have been done differently to have a different conclusion for the negotiations?

People who participated in the acquisition process, all have slightly different viewpoints. First of all, lack of trust was identified during the process. Trust between buyer and target started shattering when negotiations were prolonged. Polish want to do business face-to-face. Maybe the importance of this wasn’t fully understood, which started the growth of mistrust between negotiating sides. Another identified problem to address, was the excessive involvement of lawyers in the process. Inexperienced lawyers on the target side complicated the process unnecessarily in the beginning.

HUB sees itself as a fast problem solver during the negotiations. Polish business culture differs from the Finnish one. Slower and more bureaucratic decision making process was testing the patience of the buyer side. Here needs to be noted that the way of doing business in another country isn’t easily changed and the negotiation partner expects that their way of doing things in respected such as during the post-handover integration. The bigger can’t force the smaller to change to its’ ways by force. Negotiating agenda also played a role in acquisition failure. One interviewee notes that the agenda was too loose and concrete results were achieved slower.

Acquisition plan in Poland was an ambitious one from the beginning. Still, it was in line with HUB’s strategy and the choice of country and company were well executed. As a first-timer with an international expansion of such scale, HUB phased the fact that it is hard to prepare for such an enormous process. More employees and resources ended up being needed than was probably initially predicted. HUB did the right choice when hiring experts of Polish market to acquire lacking know-how for the process. All-in-all HUB did it’s best
to cope with the changing negotiation conditions and to adapt to local business culture. This part is hard for any first-timer company involved in a cross-border acquisition.

HUB made the required resources available to achieve a successful acquisition deal. Integration teams were already in place. So much was invested in the success of the process, that the interruption of negotiations came out of the blue. Members of HUB management later speculated why they didn’t terminate the negotiations earlier themselves. Experience on acquisitions could have helped to better predict the acquisition negotiation outcome. Finally, the possibility of chance affecting a negotiation process should also be taken into account.

4 RESULTS & DISCUSSION

Missing the point of view of the acquired company leaves room for speculation. The reasons behind target company’s decision to terminate negotiations can be only speculated. It might have been purely bad luck on HUB’s side. But more likely something happened in the target during the negotiation process that had already proceeded way longer that predicted. Over time the negotiating sides might have started losing motivation and commitment on the process. Maybe the signs of this have been too slight to notice or the sides were sort of living in denial for some time; refusing to see that the process was going to end.

Maybe the target lost trust and became suspicious. Acquired company was a family business with one family using all the power. This probably impacted the termination decision greatly since the final decisions always came from the owner. Having spent a lifetime building something, maybe in the end it was too hard to give up. Owners of the target company might have suddenly changed their minds over the future of their company. Maybe they had realized that their company had greater valuation than they expected or ownership was suspicious about getting their money back. Some internal change might also have occurred in the acquired company. With so many gate keepers even HUB might not have found out
about such change. For example, changes in management might have made the target ownership to reconsider keeping the company.

Most of these theories were also proposed by people involved in the acquisition on HUB’s side until the end. This elevates a conclusion that there probably was mistrust on both sides nearing the end of the negotiations. This research would have greatly benefitted from learning the full story: what was happening on the target company? The termination of negotiations came very unexpectedly to me as well. Working title of this research had been until that point: Post-merger integration – Case Poland. The process never got that far.

Cultural issues and trust seem to be some of the most key factors here. Missing the target company’s viewpoint makes understanding them difficult. For example, what HUB might have seen as delaying negotiation tactics, maybe are common way of doing in Poland. It would be very insightful to continue building upon findings of this research. How will the experience from this acquisition process affect the next one where Hub is involved? Would it have made a difference if the target country was different? In the long term quantitative research would perhaps yield more universally applicable results since one iteration of an acquisition process doesn’t reveal much of the company’s acquisition success-capability. Even bad luck could eventually have been the reason of an individual acquisition process failure.
5 CONCLUSIONS

Cross-border acquisitions are complicated processes. A lot of steps of increasing importance are involved (Chapter 2.7). More than half of acquisitions fail. Well-managed they are worth the risks involved because acquisitions are a way to make a market entry without pre-existing references or a major investment of time and resources is required to found a new company. Despite the low success rates, acquisitions are becoming increasingly popular as a form of internationalization (IMAA, 2016).

HUB identified internationalization as a necessity for implementing the company growth strategy. Commitment to Polish market was sizeable, when a company with a double digit turnover was selected (Chapter 2.2.1). Market research was conducted with care and the target company selection process took two iterations so the synergy considerations were done with patience. Still, HUB was taking probably the biggest risk in company’s history to open a new market with huge potential.

A positive cycle occurred in the early stages of the acquisition process. Tempo might have been so fast, that optimistic estimates were made for the handover date (Chapter 3.7). First 4 months of the negotiation process went according to form with just minor disappointments like overvaluation of purchase price. Difficulties started after the completion of due diligence.

Major pitfalls that in part led to the termination of HUB acquisition process, start from cultural differences. Polish corporate culture appeared more hierarchical than the Finnish one. Negotiators had to be from the same management level to achieve meaningful results (Chapter 3.5). Busy schedules of owners and upper management and the physical distance made negotiation take more time and effort than was expected. Maybe the importance of face-to-face contact was underestimated and both sides became less motivated to keep up a
regular and planned negotiation routine while the results stopped coming after the initial negotiation successes.

Lack of acquisition experience also showed at HUB. Time and resource allocation had to be rethought when problems arose. Complicated negotiations required know-how from the negotiation process itself (Chapter 2.2.3). Negotiation experience and clearly planned agenda proved to be useful during the process. One had to be even prepared to deal with lawyer-involvement in the process. Major progress wasn’t achieved with lawyers but with management of both sides meeting face-to-face. Personal chemistry then plays a role.

Cultural differences can be mitigated by employing experts with local knowledge. This also works with lack of acquisition experience: a mentor with prior acquisition experience can help to avoid most common pitfalls in an acquisition. These pitfalls include overestimating synergies, lack of communication, not addressing cultural differences, choosing the wrong target company, not utilizing due diligence and inadequate risk management (Chapter 2.7).

An adequate amount of resources was allocated to the acquisition process on HUB’s side. The buyer hired locals and external consultants to cover the gaps in their know-how (Chapter 3.5). A new finance director was a welcomed addition to the team. Also a lot of thought was put to the integration planning. Post-merger integration was correctly identified as the most important step in the whole process. It is a shame that the process never got that far.

Both of the companies involved share some blame to the sudden interruption of acquisition negotiations that happened about a year after the acquisition had officially started. Lack of trust was caused by inadequate and maybe even misleading communication. Both sides had their reservations and insecurities which only grew in time. HUB tried to influence such development by making a great marketing video about its values. Another way to improve communication could be organization of corporate events, which act as a communication venue and help gauging the popularity of the merger among employees of the target (Chapter
2.4.1). Regular and clear communication alleviates the concerns and anxiety employees involved in an acquisition have considering their position (Chapter 2.4.3).

By the end of the acquisition some of the risks involved had already started to being realized (Chapter 3.6). Loss of existing customer contracts was starting to happen or had already happened when major customer contracts of the target company were closing to expiration date. HUB didn’t have much in ways to influence the state of the target company while the negotiation was ongoing. In my opinion, the purchase price should have been altered to account for the loss of value in the target. Also, the ongoing negotiations were just consuming resources of both companies without concrete results.

On the positive side, HUB made a successful country choice and they are still committed into staying in Poland. HUB Poland’s main office in Poznan employs a small but effective team who now has the experience from one acquisition and will no doubt have more to come. New customer acquisition is in full swing and a new acquisition target on the radar. One major change will probably differentiate the next acquisition from the first one; company size will be significantly smaller to mitigate risks. Seeking a new acquisition is still the best option going forward, since acquisition can offer so many benefits compared to founding a new business or leaving the Polish market.
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APPENDIX 1.

Interview questions send to HUB management after acquisition negotiations had been terminated.

1. What was your role during the acquisition process?
2. What reasons led to the failure of acquisition?
3. What could have been done differently?
4. What was successful during the process?
5. What does the future hold for HUB Poland?