

## Corporate acquisition strategies and economic performance – A case of Slovenia\*

Matej Lahovnik<sup>1</sup>, Vladimir Malenković<sup>2</sup>

### Abstract

*The purpose of this paper is to examine the factors that influenced the performance of acquisitions in Slovenia. The empirical research methodology is based on qualitative part (interviews by using questionnaire) and quantitative part (descriptive statistics, correlation, regression model). In the methodology subjective approach (performance perceived by managers) is combined with more objective criteria. The performance of an acquisition is measured by comparing the acquisition's motives with its outcomes. The acquisitions were divided into three types: horizontal, vertical and conglomerate. The result of this research implicates that the so-called strategic and organizational fit between companies involved in M&A play an important role in improving the operational performance of the acquired companies in the post-acquisition period. Successful acquirers not only had a background in detecting below-average or less than full potential performance, but they also had some skills and competencies to improve the performance of an acquired firm. The results of our study suggest the conclusion that increasing relatedness – especially with regard to certain competencies and skills – between companies involved in an acquisition increases the chances of success.*

**Key words:** acquisitions, performance, strategy, relatedness, fit

**JEL classification:** G34

\* Received: 06-12-2010; accepted: 06-06-2011

<sup>1</sup> PhD, Associate Professor, University of Ljubljana, Faculty of Economics, Management Department, Kardeljeva ploščad 17, 1000 Ljubljana, Slovenia. Scientific affiliation: strategic management. Phone: GSM: +38651343000. E-mail: matej.lahovnik@ef.uni-lj.si

<sup>2</sup> PhD, Holding of Slovenian Electricity Producers, Senior Adviser of the Management Board, Kopraska ulica 33, 1000 Ljubljana. Scientific affiliation: Strategic management. Phone: GSM: +38641738118. E-mail: vladimir.malenkovic@hse.si

## 1. Introduction

The first merger wave in Europe was in the mid-1980s primarily due to the development of the common European Market. Freedom from the political barriers that had fragmented the markets was the motivation for many European companies in realising economies of scale by acquiring other companies. Acquirers found it less difficult to determine which acquisition strategies to pursue rather than how to actually implement them. A survey of over 200 top European executives came to the conclusion that the challenge of integrating the newly acquired companies was more important to the success of the merger than other more traditional strategic considerations. In the nineties the mergers and acquisitions mania in both Europe and the USA continued. The acquisition of enterprises has become the most popular corporate strategy in global industries. In the future, shifts in the levels of acquisition activities may occur with fluctuations in the economies and with changing regulatory environments. However, the integration of local markets into the global economy, the development of financial markets, the liberalisation and deregulation processes strongly support the thesis that mergers and acquisitions will continue to be major forces in the economy.

The number of mergers and acquisitions has increased also in the economies in transition. However, the overwhelming empirical evidence suggests that, from the acquirer's perspective, acquisitions are mostly at best 'break-even' situations and at worst failures. Some studies found that 33% to 50% of acquisitions were later divested, giving corporate marriages a divorce rate roughly comparable to that of men and woman (Porter, 1987; Bradley, Desai, Kim, 1988; Jarrell, Brickley, Netter, 1988). The real winners of acquisitions are therefore in most cases the target company's shareholders who receive a significant take-over premium on top of the market price. A number of hypotheses have been proposed to explain why acquisitions occur.

The ownership structures that have emerged from the variety of privatisation programmes in the economies in transition have not produced concentrated ownership in the hands of outsiders who are able to finance growth, to modernise technology and to provide marketing skills as required. For example, internal owners hold majority-voting control in majority of firms in Slovenia that have undergone ownership transformation. Scholars argue that firms dominated by insiders in transition economies cannot generate the resources needed for restructuring activities. On the other hand, some companies are still controlled by governmental agencies and could be strategically restructured through acquisitions.

The business environment in Slovenia has changed radically in the last decade. Slovenia has become a member of EU, Euro-zone and OECD. Companies in Slovenia are being exposed to increasing foreign competition due to the liberalisation of foreign trade regimes. Scholars argue that Slovenian economy have been faced with intensive restructuring process in the last decade on the corporate level (Penger,

Tekavčič, 2008; Dervarič, Medved, Malenković, 2008; Lahovnik 2010). However, companies still measure their performance unsystematically, since only 38 percent of companies use some form of integrated performance measurement systems (Peljhan, Tekavčič, Marc, Šobota, 2010). Various synergies that should increase the competitive potential of the merged companies are often easy to identify in the 'due diligence' process. However, actual realisation of these synergies requires significant organisational changes. Employees may either support or not support these changes. An acquisition may represent a challenge and an opportunity for an employee, or it might cause fear and resistance due to the unpredictability of changes that follow in the post-acquisition, integration period.

Potential foreign investors outside EU have been used Slovenian economy as a starting point for penetrating internal EU market. Slovenia survived relatively well the first impact of the financial crisis and Slovenia is not in the recession. This is attributable to the banks' limited exposure and a low level of household debt. However, the most recent data show that lower demand and tightening of financing conditions, the changes in the international environment have begun to affect the Slovenian economy. Economic policy makers believe that protectionist tendencies should be avoided in the times of crisis. The anti-crisis measures do not discriminate between domestic and foreign commercial entities. Slovenia is committed to continue with the programmes of privatisation of companies in direct or indirect state ownership, although now is not the best time for these activities. There is still a process of accelerated exit of the state from company ownership in the portfolios of the state funds, i.e. the capital fund (KAD) and the restitution fund (SOD). In those companies that will remain in state-ownership with an important share, considerable improvements are taking place in corporate governance in accordance with the Principles and Guidelines of the OECD on corporate governance, especially of state-owned enterprises. Steps are being taken to better define the role of the State in the economy and that of private business initiative as well as respective responsibilities.

The purpose of this paper is to examine the factors that influenced the performance of acquisitions in Slovenia. The research is focused on the relationship between companies involved in an acquisition. In the literature one can find contradictory empirical results on the performance of different types of acquisition. The basic research hypothesis is that increasing relatedness, especially with regard to certain competencies and skills, between companies involved in an acquisition increases the chances of success. Therefore three subsidiary hypotheses are formulated:

1.  $H_1$ : There is statistically significant correlation between the importance of motives for acquisition and their realisation in the post-acquisition period.
2.  $H_2$ : The realisation of motives for acquisition lead to an increasing return on equity and value added per employee in the acquired company.
3.  $H_3$ : There are no perceived performance differences regarding the acquisition type.

The paper proceeds as follows. The next section deals shortly with some important theoretical issues. The third section explains how we conducted the research. The empirical results are presented in the fourth section. In the last section, we offer some conclusions.

## **2. Theoretical background**

### **2.1. Performance of acquisitions**

Empirical evidence suggests that, from the acquirer's perspective, acquisitions are mostly at best 'break-even' situations and all-too-often failures (Gates, Very, 2003; Norburn, Schoenberg, 1994; Berkovitch and Narayanan, 1993; Morck, Schleifer, Vishny, 1990; Lubatkin, 1983). Scholars investigated the comparability of the three most widely used measures of acquisition performance. The results from the three different measures in this recent study indicated failure rates from 50% to 60% (Papadakis, Thanos, 2010). In most cases, the real winners of acquisitions are the target company's shareholders, who receive a significant take-over premium on top of the market price (Dess, Picken, Jay, 1998; Pare, 1994). Usually, investors mark down the stock of acquirers following takeover announcements, indicating their belief that acquiring managers have overpaid the target (Shleifer, Vishny, 1991). This adverse market reaction is reinforced by findings that acquisitions lead to declines in the acquiring company longer-term profitability (Fowler and Schmidt, 1989; Ravenscraft and Scherer, 1989) and shareholder returns (Agrawal, Jaffe and Mandelkar, 1992, Jarrell, Brickley, Netter, 1988). Acquisitions are often divested later at a loss (Porter, 1987).

King et al. (2004) in empirical research has not consistently identified antecedents for predicting post-acquisition performance. They found robust results indicating that, on average and across the most commonly studied variables; acquiring firms' performance does not positively change as a function of their acquisition activity, and is negatively affected to a modest extent. Their results indicate that unidentified variables may explain significant variance in post-acquisition performance, suggesting the need for additional theory development and changes to M&A research methods. Finkelstein and Haleblan (2002) in their study examined positive and negative transfer effects in organization acquisitions. Data from 96 organizations revealed that, consistent with theories on positive transfer of industry knowledge, similar acquisitions are positively related to acquisition performance. In addition, consistent with theory on negative transfer of past acquisition knowledge, second acquisitions underperform first acquisitions, particularly when first and second targets are from different industries. In combination, these findings suggest that the routines and practices established in prior situations transfer to new situations, and that the effect of such transfer depends on the similarity of industrial environments.

Dickerson et al. (1997) investigated the impact of acquisitions on company performance using a large panel of UK-quoted companies observed over a long time period. The results indicated that acquisitions have a detrimental impact on company performance and that company growth through acquisition yields a lower rate of return than growth through internal investment. Capron (1999) examined the impact of post-acquisition asset divestiture and resource redeployment on the long-term performance of horizontal acquisitions. His results showed that both asset divestiture and resource redeployment can contribute to acquisition performance, with, however, a significant risk of damaging acquisition performance when the divested assets and redeployed resources are those of the target.

## **2.2. Relatedness between acquiring and acquired company and acquisition performance**

A large part of the literature from industrial organization and management expects that, compared with unrelated M&A, related M&A's show superior economic performance because of synergetic effects that follow from economies of scale and scope. However, we can identify at least three different groups of authors with contradicting results. The first group of scholars found that well-managed organisations had used a 'sticking to the knitting' strategy (Collis, Montgomery, 1998; Very, 1993). Singh and Montgomery (1987: 377) investigated the conceptual argument that acquisitions which are related in product/market or technological terms create higher value than unrelated acquisitions. Related acquisitions are found to have greater total dollar gains than unrelated acquisitions. Acquired firms in related acquisitions have substantially higher gains than acquired firms in unrelated acquisitions. These findings indicate that related target firms benefit more from acquisition than unrelated target firms. Simmonds (1990) examined the impact of the symbiotic relationship between diversification breadth and mode on firm performance. Seventy-three Fortune 500 firms were classified by diversification breadth (related/unrelated) and mode (internal/external) and their performance during the period 1975–84 analyzed on four financial performance measures. The two related categories (related-internal/related-external) were generally higher performers than the two unrelated categories (unrelated-internal/unrelated-external) as hypothesized, but the differences were not significant on most performance measures. The unrelated-external category appears to be the worst performer, which presents a dilemma since this strategy has dominated the conglomerate movement. Some recent findings suggesting strategic complementarity is an important antecedent of acquisition performance (Kim, Finkelstein, 2009).

Other group of scholars argues that performance differences depend on the characteristics of the markets in which firms operate rather than on the strategic relationship between existing and new businesses (Lecraw, 1984; Bettis, Hall, 1982). Seth (1990) found out in his research that value is created in both unrelated

and related acquisitions. Further, the data do not appear to indicate that related acquisitions create more value than unrelated acquisitions on average. However, the third group of scholars found that targets in unrelated mergers perform better than those in related mergers (Chatterjee, 1986; Little, 1984).

The resource-based perspective suggests that firms are bundles of assets, some of which are fungible in nature. To the extent that some resources are fungible, firms should be able to redeploy them to enter new markets when their existing businesses decline. Anand and Singh (1997) examined the differences in performance outcomes between diversification-oriented acquisitions and consolidation-oriented acquisitions in industries within the defense sector, which have experienced significant decline. Their results indicate that consolidation-oriented acquisitions outperform diversification-oriented acquisitions in the decline phase of their industries in terms of both *ex ante* (stock market based) and *ex post* (operating) performance measures. The implication of such results is that assets from declining industries are redeployed more effectively through market mechanisms than within the firm through the acquisition of complementary assets.

Walker (2000) investigated the strategic objectives and stock price performance of acquiring firms. The results support both the asymmetric information hypothesis (acquiring-firm shareholders earn higher returns following cash offers) and also the strategic alignment hypothesis (acquiring-firm shareholders earn higher returns following takeovers that expand the firm's operations geographically or increase its market share). Further analysis shows that shareholder losses are limited primarily to those takeovers based on diversification strategies, when the acquiring firm cites potential overlap with its existing operations. The latter firms tend to have more favorable growth opportunities prior to the takeover announcement. The current studies take the debate on the effect of different M&A's somewhat further by studying the effect of M&A's on the technological performance of companies. In the study of Hagedoom and Dujsters (2002), the technological performance of M&A's is related to a high-tech sector, i.e. the international computer industry. The main result of their research is that the so-called strategic and organizational fit between companies involved in M&A's seem to play an important role in improving the technological performance of companies

### **2.3. Factors determining acquisition's performance**

In most cases, the failure of an acquired company can be attributed to one of two root causes. Acquirers may pick the wrong partners, often entering into a relationship for a variety of wrong reasons, overestimating potential synergies and paying too much for the acquisition. Or they may fail in the challenge of successfully integrating the newly acquired company, a phase which is critical for success. The strategic relatedness between the acquiring and target companies is one of the key issues



influencing the performance of an acquisition, although empirical evidence on this issue is mixed. We have tried to contribute to this pool of knowledge by analysing the performance of acquisitions in a small open economy. From the perspective of a local firm that is to be sold, the key questions are whether and how an acquirer will restructure the company, and how this will contribute to the acquired company's competitive advantage.

Choosing the right partner is critical. However, even if an acquirer chooses wisely it may still reduce performance by integrating the two companies together too roughly. Industry observers have therefore identified post-acquisition integration as being critical to long-term acquisition success (Gruca, Deepika, Mehra, 1997; Very et al. 1997; Norburn, Schoenberg, 1994; De Noble, Gustafson, Hegert, 1988). Some other scholars (Čater, Pučko, 2010) in a study on a sample of 172 Slovenian companies reveal that managers in Slovenia mostly rely on planning and organising activities when implementing strategies, while the biggest obstacle to strategy execution is poor leadership. Hambrick and Hanella (1993) added to the understanding of the integration process by emphasising that an acquired company's executives are placed in a new social setting in which comparisons with their acquirers as well as with their prior situation are inevitable. They may feel a loss of autonomy, alienation from their new partner group, inferior in status and unappreciated by the acquiring company's top managers. These feelings may bring serious consequences: on one hand, some valuable executives of the acquired company may leave the company, while, on the other, those who choose to stay may reduce their commitment to the job. Scholars argue that management of the buying firm should pay at least as much attention to the human side of the acquisition as they generally give to the strategic side when planning and managing the acquisition, acting as partners with the acquired company's managers rather than as 'conquerors' (Ashkenas et al., 1998). They found that the removal of autonomy had an indirect effect on a merger's performance by virtue of its interaction with perceptions of cultural compatibility. Autonomy removal implies a high degree of post-acquisition interaction between the merging firms. Special importance is assigned to the cultural clash between merging companies, especially in cases of cross-border acquisitions (Thomson, 1996; Norburn, Schoenberg, 1994). Cultural differences can have positive or negative impacts on the acquisition's performance, depending on how favourably the acquired company's executives view the buying firm's values and ways of conducting business (Very et al., 1997).

### **3. Methodology**

The person or a company which acquires a share in a joint stock company's voting stock in Slovenia so that this stock, together with other existing securities in its portfolio, ensures it a voting right of no less than 25%, has to submit a public take-over bid to acquire these securities. Prior to submitting the take-over bid, the bidder

shall announce his intention of submitting a take-over bid to the Securities and Exchange Agency, which has the crucial regulation role of the acquisition process in Slovenia. In the period 1998-2008, 195 takeover-bids were announced in Slovenia out of which 177 were successfully implemented. In seven cases the target was bank whereas in 38 cases the target was other financial institution. We focused our research to the successfully implemented take-over bids that met specific criteria. The acquired firm had to have specific characteristics to fall within the research sample:

- it should have had at least 250 employees;
- it should have had at least USD 5 million in annual income;
- it should not be a bank or other financial institution and
- it should have been a joint-stock company.

This empirical research was based on a fully-structured interview that was prepared with pre-coded responses. To collect data we mailed our questionnaire to 98 companies in Slovenia that have been acquired in the period 1998-2008 and that met specified criteria. 58 companies responded which gives us 59.2 percentage respond rate. The responses of the top managers were recorded on a standardized Likert scale. We identified 12 foreign direct investments within the research sample. The research sample included 31 horizontal acquisitions (firms operating and competing in the same kind of business activity), 23 conglomerate acquisitions (firms engaged in unrelated types of business activity) and 4 vertical acquisitions (firms at different stages of production). Managers who answered the questionnaires had been included from the start of the acquisition process and were well aware of all strategic factors that determined the acquisition.

In the examination of acquisition activity, respondents were asked to evaluate motives for an acquisition. One or more of these motives have been included in other merger and acquisition studies (Brouthers et al, 1998; Walter, Barney, 1990; Goldberg, 1983). Top managers were at first asked to rate each of the motives on its importance to a particular acquisition deal. Although scholars have suggested that the proper way to measure the strategic performance of an acquisition is to compare the acquisition's motives with its outcomes (Brouthers et al., 1998), we tried to counter this essentially subjective approach by examining the objective criteria of ROE and value added per employee. We have discovered that managers have multiple motives for making acquisitions in Slovenia and, as a result, have tried to find out whether the primary motives for these acquisitions were in fact realized in the post-acquisition period. The respondents were asked to indicate how successful the acquiring firms had been in achieving each of the potential motives. Responses ranged from (1) 'not realized at all' to (5) 'fully realized'. We propose that, once the motives of acquisition are identified, the success or failure of a particular acquisition can be measured by examining the extent to which those motives have been satisfied (Table 1).



In the following model the performance perceived by managers of different acquisition types is being measured:

*Model:*

$$\text{PERFORMANCE (perceived by managers)} = \beta + \beta_1 D_1 + \beta_2 D_2 + u$$

$\beta$  – constant

$D_1, D_2$  – dummies

$u$  – random variable

*Conditions:*

If it is a vertical acquisition  $\Rightarrow D_1=1$  otherwise  $D_1=0$

If it is a conglomerate acquisition  $\Rightarrow D_2=1$  otherwise  $D_2=0$

A possible weakness of the approach was that managers could try to justify their actions by assigning more importance to the motives that were actually realized. Such ex-post rationalization was avoided by using two additional criteria to measure the performance of the acquisitions: return on equity (ROE) and value added per employee. We correlated two variables – the return on equity and value added per employee – with the realization of the key motives for acquisitions (Table 2).

#### **4. The results of the study**

The most important motives in Slovenia have been: strategic realignment to the changes in the business environment, transfer of skills, sharing of activities, complementary resources between companies and profit maximization. Mergers and acquisitions in Slovenia have been important form of strategic restructuring process in the economy. Slovenia has been gone through intensive transition process and the business environment has changed significantly in the last twenty years. In general, the most important motives have been realized to a moderate degree. The correlation between the importance of motives and their realisation in Slovenia is positive and statistically significant at low P levels. We can argue that the pursuit of one motive also resulted in the achievement of others. For example, the sharing of activities also resulted in achieving complementary resources between companies and in profit maximization. On the other hand the profit maximization resulted in sharing activities between acquiring and acquired company and in transfer of skills (Table 1).

Table 1: Performance of acquisitions in Slovenia

Motive*	Realisation**	r***	Sig.
Transfer of skills from the acquiring to the acquired company (3.86)	Transfer of skills from the acquiring to the acquired company (3.64)	0.345	0.015
Sharing of activities (3.72)	Sharing of activities (3.32)	0.642	0.032
	Complementary resources (3.58)	0.613	0.031
	Profit maximisation (3.19)	0.311	0.058
Complementary resources (3.68)	Complementary resources (3.58)	0.421	0.006
	Sharing of activities (3.32)	0.718	0.024
Strategic realignment (3.81)	Strategic realignment (3.68)	0.764	0.001
Profit maximisation (3.88)	Profit maximisation (3.19)	0.467	0.012
	Transfer of skills (3.64)	0.381	0.038
	Sharing of activities (3.32)	0.329	0.033
	Strategic realignment (3.68)	0.456	0.028

\*Motive Scale: 1 – unimportant motive, 5 – very important motive

\*\*Realization scale: 1 – not realized at all, 5 – fully realized

\*\*\* r – Correlation between the most important motives and their realisation

Source: Authors' calculation

It could be argued that the performance of acquisitions in Slovenia depends on the degree of actual realisation of two motives for acquisition: transfer of skills and sharing of activities. The correlation between the actual realisation of these two motives on one hand and the performance of an acquisition measured by ROE and value added per employee on the other is strong and statistically significant at a relatively low p level (Table 2). Further, it's obvious that the perceived realisation of some of the most important motives for acquisitions such as transfer of skills and sharing of activities as well as complementary resources between companies is a relatively good indicator of the acquisition performance as measured by more objective criteria such as value added per employee or ROE. Changes in the opportunity to share resources and activities among businesses of the firm have contributed to post-acquisition performance improvements. Our findings are consistent with some other studies. Brush's finding (1996), for example, also highlights the importance of resource sharing and activity sharing in the post-acquisition period.

On the other hand, realisation of some other motives does not lead to an increasing return on equity or value added per employee in the acquired company. The realisation of the following statistically significant motives ( $p < 0.05$ ) positively influence the acquisition performance:

- Transfer of skills from the acquiring to the acquired company
- Sharing of activities.

While the following negatively influence the acquisition performance (statistically insignificant  $p > 0.3$ )

- Financial synergies and
- Free cash flow.

The realisation of some operating synergies such as transfer of skills or sharing of activities is much better indicator of the acquisition performance measured by ROE or value added.

Table 2: How realisation of key motives influences performance of acquisitions

Motive	ROE	Value added per employee*
Transfer of skills from the acquiring to the acquired company	0.62 (p=0.04)	0.72 (p=0.02)
Strategic realignment to changes in the business environment	0.43 (p= 0.14)	0.46 (p=0.19)
Sharing of activities	0.74 (p=0.03)	0.78 (p=0.03)
Profit maximisation	0.54 (p=0.03)	0.59 (p=0.05)
Complementary resources between companies	0.35 (p=0.09)	0.39 (p=0.11)
Fast growth	0.15 (p=0.29)	0.10 (p=0.31)
To exploit the human resources of the acquiring company	0.11 (p=0.41)	0.13 (p=0.35)
Financial synergies	- 0.16 (p=0.31)	- 0.18 (p=0.42)
Local market share	0.29 (p=0.18)	0.34 (p=0.21)
Free cash flow	- 0.13 (p=0.39)	- 0.15 (p=0.40)

\* Value added was defined as the sum of depreciation, wages and net profit

Source: Authors' calculation

In addition, there is very weak, negative and statistically insignificant correlation between realisation of the dominant motives for a conglomerate acquisition (financial synergies, free cash flow etc.) and the ROE and value-added-per-employee. The acquirer that comes from the related industry obviously has some advantages. The result of our research implicates that the so-called strategic and organizational fit between companies involved in M&A's play an important role in improving the operational performance of the acquired companies in the post-acquisition period. The change in performance of the acquired firms is significantly larger for cases

in which acquirer and acquired companies are related. The results indicate that related target firms benefit more from acquisition than unrelated target firms due to the operational synergies. Acquisitions which are related in product/market and/or technological terms create higher value than unrelated acquisitions.

By comparing the performance of different acquisition types we learned that horizontal acquisitions outperform the other two types (vertical and conglomerate acquisitions):

*Results:*

$$\text{PERFORMANCE} = 3.453 - 0.58 D_1 - 1.12 D_2$$

(p = 0.00) (p = 0.08) (p = 0.05)

$\beta$  – constant

$D_1, D_2$  – dummies

$u$  – random variable

*Conditions:*

If it is a vertical acquisition  $\Rightarrow D_1=1$  otherwise  $D_1=0$

If it is a conglomerate acquisition  $\Rightarrow D_2=1$  otherwise  $D_2=0$

This study suggests that compared with unrelated M&A's, related M&A's show superior economic performance because of synergetic effects that follow from economies of scale and scope. Although the motives for acquisitions were different, the managers of acquired companies on average perceived the realisation of motives better in the cases of horizontal acquisitions. We already found out (see Table 1 and 2) that the realisation of some motives that dominates in the cases of horizontal acquisitions positively influenced the acquisition performance measured by ROE and value added per employee. Therefore it could be suggested to the business policy makers to stay close to their core business.

## 5. Conclusion

The basic research hypothesis could be accepted. This study implicates that the greater the relatedness between companies involved before an acquisition, the lower the chance of failure. First subsidiary hypothesis can be accepted also. The statistically significant correlation between the importance of motives for acquisition and their realisation in the post-acquisition period was found. However the second subsidiary hypothesis can be rejected. The realisation of some motives increased the return on equity and value added per employee in the acquired company, whereas the

realisation of some others didn't. The actual transfer of skills and sharing of activities in the post-acquisition period strongly correlates with the ROE and value added per employee in the acquired company. On the other hand, realisation of financial synergies has not resulted in higher ROE or value added per employee. The third subsidiary hypothesis can be rejected ( $p < 0.05$ ). There are statistically significant performance differences between different acquisition types. It could be argued that compared with unrelated M&A's, related M&A's show superior economic performance because of synergetic effects that follow from economies of scale and scope. Successful acquirers not only had a background in detecting below-average or less than full potential performance, but they also had some skills and competencies to improve the performance of an acquired firm.

The strategic relatedness between the acquiring and target companies is one of the key issues influencing the performance of an acquisition, although empirical evidence on this issue is mixed. This paper determines that greater relatedness increases the chances of success which is important contribution to the economic science. In our study we also identified the realisation of the transfer of skills and sharing of activities as the key success factors. Last but not least, most of previous studies have been concentrated to the western developed economies while this study is focused to the economy in transition. In the study mergers and acquisitions are identified as one of the most important forms of strategic restructuring in the economy in transition. Post-acquisition integration is critical to the acquisition performance. Therefore future research should be focused to the different integration strategies. Special attention should be given to the acquirers' integration strategies in the economies in transition.

This study has some limitations. First, the results are limited to a small economy in transition. However, the business environment has become very similar to the environment seen in other EU countries in the last few years due to EU and OECD integration process. Before applying some implications to other economies in transition in the region, one should consider the specific characteristics of each economy. Second, it may be argued that the degree of realisation of motives for acquisitions is not a proper performance indicator and that the strong and positive correlation of the importance of motives with the extent of implementation only shows that the firms interviewed actually carried out the activities they considered important. The subjectivity of this criterion was overcome by applying two additional performance criteria: ROE and value added per employee. Third, we managed to obtain only 59.2% of all target cases in our research sample. One might assume that the share of those who were not involved in our research might be more substantial in the cases of unsuccessful acquisitions. People are usually more willing to discuss their success stories than failures.

The results have some important implications to the management and business policy. First, acquisition is appropriate form of diversification when the new

business is related with the existing one. Second, in the case of unrelated businesses, some other forms of diversification are more appropriate such as: joint ventures or strategic alliances. Third, acquirers should build the acquisition strategy on their core competencies that can be defined as a combination of resources and capabilities that are unique to a specific organisation and which are responsible for generating its competitive advantage. Economic policy should accelerate the merger and acquisition process in a small open economy due to the economies of scale and scope. However on the other hand it should develop the efficient regulatory mechanism to sustain competitive business environment by preventing those mergers and acquisitions that could have negative impact on the competition in the market as well as to the consumers.

## References

- Agrawal, A., Jaffe, J. F. and Mandelker, G. N. (1992) "The post-merger performance of acquiring firms: are-examination of an anomaly", *The Journal of Finance*, Vol. 47, No 4, pp. 1605-1621.
- Anand, J., Singh, H. (1997) "Asset Redeployment, Acquisitions and Corporate Strategy in Declining Industries", *Strategic Management Journal*, Vol. 18, No 3, pp. 99-118.
- Ashkenas, R. N., DeMonaco, J. L. and Francis, S.C. (1998) "Making the Deal Real: How GE Capital Integrates Acquisitions", *Harvard Business Review*, Vol. 76, No 1, pp. 165-178.
- Berkovich, E. and M. P. Narayanan (1993) "Motives for takeovers: An empirical investigation", *Journal of Financial and Quantitative Analysis*, Vol. 28, No 3, pp. 347-362.
- Bettis, R. A., Hall, K.W. (1982) "Diversification Strategy, Accounting Determined Risk and Accounting Determined Return", *Academy of Management Journal*, Vol. 25, No 2, pp. 254-264.
- Bradley, M., Desai, A. and Kim, H. E. (1988) "Synergistic Gains from Corporate Acquisitions and their Divisions Between the Stockholders of Target and Acquiring Firms", *Journal of Financial Economics*, Vol. 21, No 1, pp. 3-40.
- Brouthers, K. D., P. V. van Hastenburg, J. van den Ven (1998) "If Most Mergers Fail Why Are They so Popular?" *Long Range Planning*, Vol. 31, No 3, pp. 347-353.
- Brush, H. T. (1996) "Predicted Change in Operational Synergy and Post-Acquisition Performance of Acquired Businesses", *Strategic Management Journal*, Vol. 17, No 1, pp. 1-24.



- Calori, R., Lubatkin, M. (1993) "Euro-mergers 1993: Viewpoints and predictions". In H. Singh, A. Sinatra & G. von Krogh ed. *Perspectives on the Management of Acquisitions*, London: Macmillan.
- Capron, L. (1999) "The long-term performance of horizontal acquisitions", *Strategic Management Journal*, Vol. 20, No 11, pp. 987-1018.
- Chatterjee, S. (1986), "Types of Synergy and Economic Value: The Impact of Acquisitions on Merging and Rival Firms", *Strategic Management Journal*, Vol. 7, No 2, pp. 119-139.
- Collis, D. J., Montgomery, A. C. (1998) "Creating Corporate Advantage", *Harvard Business Review*, Vol. 76, No 3, pp. 71-83.
- Čater, T., Pučko, D. (2010) "Factors of effective strategy implementation: Empirical evidence from Slovenian business practice", *Journal for East European Management Studies*, Vol. 15, No 3, pp. 207-236.
- De Noble, A. F., Gustafson T. L. and Hegert M. (1988) "Planning for Post-merger Integration – Eight Lessons for Merger Success", *Long Range Planning*, Vol. 21, No 4, pp. 82-85.
- Dervarič, E., Medved, M., Malenković, V. (2008) "Strategic factors and a model of enterprise restructuring in the coal industry in Europe with emphasis on experience in Slovenia – Velenje coal mine case", *The Southern African Institute of Mining and Metallurgy*, Vol. 106, No 5, pp. 1-14.
- Dess, G. D., Picken, C. J. and Jay, J. Janney (1998) "Subtracting Value by Adding Businesses", *Business Horizons*, Vol. 41, No 1, pp. 9-18.
- Dickerson, P. A., Gibson, D. H., Tsakalotos, E. (1997) "The impact of acquisitions on company performance: Evidence from a large panel of UK firms", *Oxford Economic Papers*, Vol. 49, No 3, pp. 344-361.
- Finkelstein, S., Halebian, J. (2002) "Understanding Acquisition Performance: The Role of Transfer Effects", *Organizations Science*, Vol. 13, No 1, pp. 36-47.
- Fowler, L. K., Schmidt, R. D. (1989) "Determinants of tender offer post-acquisition financial performance", *Strategic Management Journal*, Vol. 10, No 4, pp. 339-350.
- Gates, S., Very, P. (2003) "Measuring Performance During M&A Integration", *Long Range Planning*, Vol. 36, No 2, pp. 167-185.
- Goldberg, H. W. (1983) *Mergers: Motives, Modes, Methods*, Hampshire: Gower Publishing Company.
- Gruca, S. T., Deepika, N., Mehra, A. (1997) "Exploiting Synergy for Competitive Advantage", *Long Range Planning*, Vol. 30, No 4, pp. 605-611.
- Hagedoorn, J., Duysters, G. (2002) "The Effect of Mergers and Acquisitions on the Technological Performance of Companies in a High-tech Environment", *Technology Analysis and Strategic Management*, Vol. 14, No 1, pp. 67-85.

- Hambrick, D. and Cannella A. (1993) "Relative standing: A framework for understanding departures of acquired executives", *Academy of Management Journal*, Vol. 36, No 4, pp. 733-762.
- Jarrell, G. A., Brickley, A. J. and Netter, M. J. (1988) "The Market for Corporate Control, the Empirical Evidence since 1980", *Journal of Economic Perspectives*, Vol. 2, No 1, pp. 49-68
- Journal of Industrial Organisation*, Vol 7, No 1, pp. 101-116.
- Kaplan, S. and Weisbach, S. M. (1992) "The Success of Acquisitions: Evidence from Divestitures", *Journal of Finance*, Vol. 47, No 1, pp. 107-138.
- Kim, J., Finkelstein, S (2009) "The Effects of Strategic and Market Complementarity on Acquisition Performance: Evidence from the U.S. Commercial Banking Industry, 1989-2001", *Strategic Management Journal*, Vol. 30, No. 6, pp. 617-646.
- King, D. R., Dalton, D. R., Daily, C. M. and Covin, J. G. (2004) "Meta-analyses of post-acquisition performance: indications of unidentified moderators", *Strategic Management Journal*, Vol. 25, No 2, pp. 187-200.
- Lahovnik, M. (2010) "Corporate governance in Slovenia after sixteen years of transition", *Transformations in business and economics*, Vol. 9, No. 2, pp. 118-127.
- Lecraw, D. J. (1984) "Diversification Strategy and Performance", *Journal of Industrial Economics*, Vol. 33, No 2, pp. 179-198.
- Little, R. (1984) "Conglomerates are doing better than you think", *Fortune*, Vol. 109, No 11, pp. 34-40.
- Lubatkin, M. (1983) "Mergers and the performance of the acquiring firm", *Academy of Management Review*, Vol. 8, No 2, pp. 218-225.
- Morck, R., Schleifer, A. and Vishny, R.W. (1990) "Do managerial objectives drive bad acquisitions?" *Journal of Finance*, Vol. 45, No 1, pp. 31-48.
- Norburn, D., Schoenberg, R. (1994) "European Cross-Border Acquisition: How Was It For You?" *Long Range Planning*, Vol. 27, No 4, pp. 25-34.
- Papadakis, V. M., Thanos, I. C. (2010) "Measuring the Performance of Acquisitions: An Empirical Investigation Using Multiple Criteria", *British Journal of Management*, Vol. 21, No. 4, pp. 859-873.
- Pare, T. P. (1994) "The New Merger Boom", *Fortune*, Vol. 28, November.
- Peljhan, D., Tekavčič, M., Marc, M., Šobota, A. (2010) "Obvladovanje uspešnosti poslovanja: ali slovenska podjetja napredujejo?", *Teorija in praksa*, Vol. 47, No 4, pp. 671-691.
- Penger, S., Tekavčič, M. (2008) "Slovenian case of strategic change management in the public sector: towards the Lisbon Strategy", *Zbornik radova Ekonomskog fakulteta Rijeka*, Vol. 26, No 2, pp. 301-324.

- Porter, M (1987) "From competitive advantage to corporate strategy", *Harvard Business Review*, Vol. 65, No 3, pp. 43-59.
- Ravenscraft, D. J. and Scherer, F. M. (1989) "The Profitability of Mergers", *International*
- Simmonds, P. G. (1990) "The combined diversification breadth and mode dimensions and the performance of large diversified firms", *Strategic Management Journal*, Vol. 11, No 5, pp. 399-410.
- Singh, H. and Montgomery, C. (1987) "Corporate Acquisition Strategies and Economic Performance", *Strategic Management Journal*, Vol. 8, No 4, pp. 377-386.
- Thomson, J. N. (1996) "Takeovers and Acculturation: Linkages from East German Privatisation to Workforce Integration", *Journal for East European Management Studies*, Vol. 1, No 4, pp. 25-41.
- Thomson, J. N. and Mc Namara, P. (2002) "Achieving post-acquisition success: the role of corporate entrepreneurship", *Long Range Planning*, Vol. 34, No 1, pp. 669-697.
- Very, P. (1993) "Success in Diversification: Building on Core Competencies", *Long Range Planning*, Vol. 26, No 5, pp. 80-92.
- Very, P., Lubatkin, M., Calori, R. and Veiga, J. (1997) "Relative standing and the performance of recently acquired European firms", *Strategic Management Journal*, Vol. 18, No 8, pp. 593-614.
- Walker, M. M. (2000) "Corporate Takeover, Strategic Objectives and Acquiring-Firm Shareholder Wealth", *Financial Management*, Spring, pp. 53-66.
- Walter, G. A., Barney, B. J. (1990) "Management Objectives in Mergers and Acquisitions", *Strategic Management Journal*, Vol. 11, No 1, pp. 79-86.

## Korporacijske strategije akvizicija i ekonomska uspješnost – primjer Slovenije

### *Sažetak*

*Matej Lahovnik<sup>1</sup>, Vladimir Malenković<sup>2</sup>*

*Svrha ovog istraživanja jest proučiti čimbenike koji utječu na uspješnost preuzimanja firmi u Sloveniji. Empiričko istraživanje temelji se na kvalitativnom dijelu (intervjuima menadžera pomoću upitnika) i kvantitativnom dijelu (deskriptivnoj statistici, korelaciji i regresijskom modelu). U primijenjenoj metodologiji, subjektivni pristup (uspješnost percipirana sa strane menadžera) kombinira se s objektivnijim kriterijima. Empirijsko istraživanje temelji se na uspoređivanju procesa akvizicije s motivima. Akvizicije su razvrstane u tri tipa: horizontalne akvizicije, vertikalne akvizicije i konglomerati. Rezultati ovog istraživanja pokazuju da takozvane strateške i organizacijske akvizicije imaju važnu ulogu za uspješnost poslovanja preuzetih kompanija u post-akvizicijskom periodu. Osim što su uspješni preuzimatelji primijenili uspješnu metodologiju za identifikaciju firmi koje su poslovale ispod prosjeka, odnosno ispod svojih mogućnosti, imali su i potrebne vještine i kompetencije za unapređivanje uspješnosti poslovanja preuzete firme. Rezultati istraživanja ukazuju na zaključak da što su firma-preuzimatelj i preuzeta firma bolje međusobno povezane na temelju određenih kompetencija i vještina, to je i veća mogućnost uspješnosti akvizicije.*

**Ključne riječi:** *akvizicija/preuzimanje, uspješnost poslovanja, strategija, povezanost, skladnost*

**JEL klasifikacija:** *G34*

<sup>1</sup> *Doktor ekonomskih znanosti, izvanredni profesor, Sveučilište u Ljubljani, Ekonomski fakultet, Kardeljeva ploščad 17, 1000 Ljubljana, Slovenija. Znanstveni interes: strateški menadžment. Tel. (GMS): +38651343000. E-mail: matej.lahovnik@ef.uni-lj.si*

<sup>2</sup> *Doktor ekonomskih znanosti, savjetnik uprave, Holding slovenačkih elektrana, Koprška ulica 33, 1000 Ljubljana, Slovenija. Znanstveni interes: strateški menadžment. Tel (GMS): +38641738118. E-mail: vladimir.malenkovic@hse.si*