Mergers and Acquisition motives in water industry- evidence from European market

MBA in Finance

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DECLARATION

I hereby certify that my thesis is wholly and entirely all my own work and not borrowed from the work of others, except to the extent that such work has been cited and acknowledged within the text of my work. I am submitting my work for assessment in MBA in Finance. It has not been submitted in whole or in part for award in any other University.

Student: Gabriele Makauskaite

Date: 16/08/2013
ACKNOWLEDGEMENT

Firstly I would like to thank two organisations. One I work for, the other I knowledge of through my company. However due to commitments of confidentially I am precluded to naming one of them, but I most grateful to them both for their participation and invaluable contribution for the completion of my Thesis. By doing so, they have greatly expanded the knowledge and research of companies Businesses.

Secondly I would like to thank my family and friends for their unwavering encouragement through my long days and late nights. With-out them my journey here would have been less fulfilling.

Thirdly, I would to thank my Thesis Supervisor Ann Masterson. Her expert assistance was invaluable throughout my research. Her guidance was directional, challenging but always enjoyable.

DEDICATION

Finally I would like to dedicate my Thesis to my Grandfather. An aspiration to achieve in life is a dream to some. To others, their aspiration is to just dream, but by self- belief can bring both of things together. My Grandfather gave me the belief by his words of encouragement and the understanding that education is no burden to carry, but a key to open the door to your future. Thanks to him I now have that key and my future is now in my hands.

Thank you!
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ABBREVIATIONS

BA – Bachelor of Arts
CEO – Chief Executive Officer
CFO – Chief Financial Officer
DBS – Dublin Business School
EBIT – Earning Before Taxes and Interest
EU - European Union
FT – Financial Times
HR - Human Resources
JIT – Just in Time
MBA- Masters of Business Association
MD – Managing Director
M&A – Mergers and Acquisitions
NDA – Non-disclosure agreement
NPV – Net Present Value
PDP – Personal Development Plan
PESTEL – Political, Economic, Social, Technological, Environmental and Legal analysis
PLC – Public Listed Company
POU – Point of use
SWOT – Strengths, Weaknesses, Opportunities and Threats
UK – United Kingdom
US - United States
WFD – Water Framework Directive
ABSTRACT

The purpose of this research is to analyse and discuss the concept of Mergers & Acquisitions (M&A) and to provide a comprehensive understanding of the motives and the nature of M&A in organisations operating in the water industry in Europe. The concept of Mergers and Acquisitions in the corporate world are achieving increased importance and attention in the past two decades and they have recently emerged as a way to grow for many firms. It is same phenomenon within the water industry and increasing number of Merger and Acquisitions is no longer surprising news. This paper will outline a relevant literature review in the area of M&A and the motives behind it. In order to obtain organisation’s perspectives on this topic, five semi-structured in-depth interviews were carried out with organisations operating in Water industry in Europe were constructed. The interviews will provide an opportunity to discuss motivating factors, value creation and benefits associated with M&A. Being an area of limited research, it is therefore valuable to investigate key motives behind M&A transactions, especially in the water industry. Consequently, the research question of “What are key drivers/motives behind M&A in the Water Industry in Europe” was put forward. A list of seven prime drivers is firstly identified from a literature review.

These motives are:

1. Synergies: financial, operational and managerial;
2. Wealth transfer from customers;
3. Wealth transfer from target’s shareholders;
4. Private information;
5. Benefit to managers;
6. Process outcomes;
7. M&A waves or business events.

The findings of this research are contributing valuable knowledge not only to the author but also to practitioners. Given the fact that M&A deal numbers have been increasing and therefore a lack of relevant literature applicable to organisations operating in the water industry, the author feels that this area requires further knowledge and research.
CHAPTER 1 INTRODUCTION
1.1 RESEARCH QUESTION

What are the key drivers/motives behind Mergers & Acquisitions (M&A) in the water industry in Europe?

1.2 PURPOSE OF THE RESEARCH

The purpose of this study is to examine the key drivers into why a company may buy another company in the water industry in Europe. It will discuss and analyse the growing concept of M&A activity to be motivated more by market-driven strategies rather than pure financial considerations solely.

1.3 MOTIVATION FOR THE RESEARCH

There are a number of motivations for research in the area of M&A. First of all, M&A is rapidly expanding as a phenomenon in the business world. It has emerged as a way for fast inorganic growth which can allow companies to gain new capabilities and enter new growing markets more rapidly than they could on their own. Yet there is also a growing new concept of M&A is being driven by market-driven strategies. Corporate buyers seem to be paying a premium to quickly snap up a new product and/or gain access to new distribution channels. The analysis behind motivating factors of these transactions will provide insight into the possible direction of future M&A activity. It will also provide guidance to companies as to how they can best position themselves to take advantage of the trend. Secondly, a disagreement as to whether there is a lack of literature on the determinants that drive organisation to the takeover market. This paper intends to add value and knowledge to the research which is examining the motivation for these strategic and/or financial choices. As a result of factors discussed above, the author feels that this area requires further in-depth research but in a European Water industry context.

1.4 RESEARCH OBJECTIVES AND METHODOLOGY

The following three research objectives form the basis of the dissertation:

1. To explore the current motivating factors for mergers and acquisitions in organisations operating in European Water industry.
2. To explore the current M&A practises in place in companies operating in European Water industry.
3. To explore the benefits associated with M&A.

The research will be conducted in three stages. First stage: literature review. During this stage a comprehensive literature review dealing with M&A and motives behind them, and how it will be presented. The second stage, primary data will be collected from selected organisations operating in European Water industry in order to be in a position to compare their experiences, motivating factors and benefits gained. Finally, in the last stage the information gathered will be analysed and further discussed.

1.5 THESIS OUTLINE

Chapter 1 – Introduction to the research topic.

Chapter 2 – Literature Review- This chapter provides definitions of M&A and theoretical background of the motives for this activity. Further it describes the industry specific information and historical development of M&A. Also it will discuss benefits associated with M&A.

Chapter 3 – Research Methodology – it will describe the methodology and data collection used in this paper. The author will also outline the rationale for particular selection after an in-depth analysis of various research methodologies.

Chapter 4 – Findings and Analysis- this chapter will present results of the research. These results will be analysed and interpreted. They will also be compared to prior research.

Chapter 5 – The Conclusion- paper will be concluded by outlining implications of the findings and also propose suggestions for future research in the field.

Chapter 6 – Reflection on learning and skills development during MBA programme and thesis process. Will discuss skills acquired and how it will affect future learning and career.
2.1 M&A OVERVIEW IN EUROPE AND EUROPEAN WATER INDUSTRY

It was difficult for many years to get attention of investors to the water industry. For a long time “Tech” stocks were probably the only area of interest. As the problem of the water shortage grows larger there is higher attention from investors who will realize as the problem gets larger, the cost of water will continue to rise, and water investments will offer the prospect of enormous growth. It is easy to see a potential fact that water is becoming 21st Century’s gold, as oil was in the 20th Century. In 2012 Europe saw a year of water.

2.1.1 EUROPEAN WATER INDUSTRY

Water in Europe is highly legislated and this is being controlled more and more. As for responsibility, it is for each country individually as well as trans-national issue. It is known that 60 per cent of the water territory lies in Trans boundary river basins. Since the 1970s, Europe is actively regulating water quality through a series of legislative acts and strategies. Later on all these acts and strategies are implemented at each state level. If we were to look at EU level, we have Water Framework Directive at the centre of water legislation which has been adopted since 2000. It accounts for issues such as quality, quantity, land management and pricing policies, it includes not only drinking water but also bathing water or wastewater etc. Another new strategy implemented in Europe is called the Blueprint for Safeguarding Europe’s Waters. It was launched in November 2012 and mainly focuses on quality and quantity of EU water. The biggest pressure identified within Europe was manmade changes in water bodies due to agriculture needs. We see increasing numbers of new dams or flood defences which are changing natural physical water bodies. Other aspects of issues identified are water pollution, over-use and extreme weather events, such as drought and flooding. The Blueprint assesses the challenges for Europe’s waters and makes a number of recommendations on how to improve them.

As the shortage of water in Europe is increasing, it gets more attention and where demand exceeds supply. As a result you can expect prices to go up which in turn leads to higher attention from investors. One of the challenges in water industry for investors is to measure how big the water industry is. Estimating market size and growth rates is clearly a difficult process. There have been a number of different attempts to size the overall water market place but the results usually differ by 300-400 per cent. This means that different people have a different concept when saying “water industry”. This could hinder the possibility of seeing which sub-sector is actually growing and which one is declining, so it is important...
to clearly make assumptions when analysing the current status and/or potential future growth of the industry. Even through different studies provide different results on the market size and growth rate, it is very clear that the industry is a huge and growing marketplace. Recent analysis by Global Water Intelligence, the leading industry Journal, estimated a global market size of 316 billion with a growth rate of 4-5 per cent annually (Global Water Market 2014: Meeting the world’s water and waste water needs until 2018, 2013). This should provide strong opportunities for well-managed companies far into the future.

2.1.2 M&A ACTIVITY IN EUROPE’S WATER INDUSTRY

Worldwide M&A activity rose during the beginning of this century and reached all-time records by the end of 2007 and accounted for $4,367 billion in total. This was mostly affected by growth of M&As between the US and the UK, additional number and volume of cross-border M&As and increased number of transactions in Asia and emerging markets. According to Capaldo, Dobbs and Suonio (2008), 80 per cent of cross-border transactions, which were equal to 200 deals in 2007, were concentrated in the European Union and the US. The surges of M&As in Europe were mainly affected by harmonization within corporate practice and regulations and the increasing role of European Commission in promoting M&A activity. M&A activity in Europe surpassed level of deals in US for the first time in 2007. Many studies suggest that this was due to the fact that economic area in the EU was integrated and effective management introduced right regulatory approaches and strategies.

If we were to look into water industry alone, in terms of M&As, it has also seen a successful year in 2007 particularly. It had reported records in value and saw an annual growth rate of 5-10 per cent. Although, uncertain economic and market forces are bringing activity down slightly in recent years, the industry is still witnessing significant M&A activity as the interest in the industry is highly growing. It seems the industry will continue to sustain strong growth in M&A activity despite the fact of on-going credit crisis and uncertainly in the markets. The same was found in KPMG’S survey. Majority of companies’ executives admitted that their company will likely be involved in an M&A transaction in the coming two years based on KPMG’S Business Pulse Survey Conducted during the second quarter of 2011. Obviously it is important part of the growth strategy within organizations. Executives interviewed in this survey see their companies pursuing
growth activities despite projection that the economy will not recover over the next years. Key strategic rationales observed in M&A activity in water market:

- Strengthen market share
- Geographic expansion
- Widening product portfolio (less common).

The global financial crisis that started in 2007 has slightly changed the M&A overview. The future of M&A is no longer a global context. It is more company and industry specific than before. There are number of different factors affecting the M&A environment. According to Financial Times survey in 2011 issues related to uncertainty about the regulatory and tax environment, which were most frequently mentioned in the survey as negatively factors. However, there are a lot of free cash around companies and where there are free cash there is a need for investment or return it to shareholders. To use free cash firms are looking for opportunities to get a return on them. Rather than growing internally, companies choose to take the M&A route to growth as it is considered to be faster and more favourable way (M&A Evolution: strategies for the New deal landscape, Financial Times, 2011). Whether fast growing economies is seeking to acquire established brands or mature business seeking to expand geographically or increase product portfolio, M&A is key strategic tool to drive growth.

The water industry delivers services that are essential to every human being not only from a health point of view but also economically. It is being more economically recognized and definitely has more financial value than ever. Water has been as a most pressing problem in the world and that we are heading towards ‘water bankruptcy’ (Davos World Economic Forum, 2009).

As the overall value of the water business is increasing, more and more companies want to get into investing in the industry and gain more market share. M&A is considered to be most popular way for growth in the water industry. Business environment is rapidly changing with increased competition not only from local firms but also from global giants. Investing in the water industry can be complex and requires deep knowledge not only about target company but also current legislations and technological developments available in the country or worldwide.
Over the last three months of 2012 the water industry saw biggest increase in M&A deal activity in Europe in comparison to the last three months of 2011. It jumped from 18 per cent to 30 per cent deals. Even though overall Europe’s deal volume decreased slightly in 2012, the spending increased healthy - 1000 deals in 2011 compared to 880 deals in 2012. Spending increased by 55.5 per cent to €168.9 billion compared to €108.6 billion in 2011 (Flashwire Europe quarterly, 2012). The economic crisis forced the water industry to become more competitive and maximize revenues by focusing on profitability. The rationale behind the majority of recent acquisitions has generally been to extend strategic capabilities or to enhance operational efficiencies (Zenith report, 2012).

2.2 DEFINITION OF M&A

Nowadays, in such a competitive environment, growth is an essential aspect of an organisation in order to survive. Companies are always looking for efficient and profitable ways to increase its revenues and/or gain a bigger slice of the market share. There are mainly two methods for growth: organic or inorganic, otherwise known as external.

Organic growth means that the company is growing by using its internally available resources. It can be new product development, expansion into new geographic markets or increasing sales and production of current products in current markets. This specific method can be slow, inefficient and can hinder organisations success for growth as competition can be faster in for example snipping new product. While on the other hand, inorganic growth can be very fast. It is related to mergers and acquisitions of required recourses to gain competitive advantage over their rivals. When a company is expanding and growing by M&A, it is assumed that the company is growing inorganically.

An M&A terms are usually used together. They are often confused or used incorrectly as one and the same transaction. So it is important to draw a line between these two concepts and understand the fundamental differences. Mergers and acquisitions are different by Sherman and Hart (2006) as below.

- Merger: A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organisation after the merger, it retains its original identify.
• Acquisition: The purchase of an asset such as a plant, a division or even an entire company.

Nakamura (2005) explained these two concepts similar to Sherman and Hart. He developed the model to provide clear differences between M&A (Figure 1.1)

![Figure 1.1 the definition of mergers and acquisitions by Nakamura (2005)](image_url)

According to Nakamura mergers are the cases where two or more firms merge together whether equally in mutual agreement or by force, while acquisition is a takeover of a company by another company.

Even an M&A could look to have negligible differences, the end result may vary. Strategic, financial and even cultural effect of a transaction can be very different so before the actual transaction different motives and factors are taken into consideration.

### 2.3 CLASSIFICATION OF MERGERS & ACQUISITIONS

There are several different classifications created over time to categorize M&A and most of them are the relationship at the time of the combination, which not only draws boundaries but also sets some expectations of the deal. Hodge and Anthony (1988) classified M&A into three categories: horizontal, vertical and diversified (or conglomerate
deals). In horizontal M&A, both companies operate in same sector and they could even be a direct competition to each other. Vertical M&A is from a supply chain point of view, where it is defined as deals between firms in buyer – seller or client – supplier. The last category is conglomerate deals where companies are from unrelated business.

In addition M&A could be classified as friendly or hostile, also could be either domestic or cross – border. Chunlai and Findlay (2003) looked at different situations of M&As and classified deals depending whether a target company agreed to the transaction or it ends up as a hostile deal were a target company refuses the offer.

2.4 PROCESS OF M&A AND ITS SUCCESS

According to Sherman and Hart (2006), successful mergers and acquisitions are neither an art, nor a science, but a process. Following from this, it is important to look at the steps involved. While looking at literature, you can find quite a wide variety of different proposed M&A processes and of course every author has its own opinion of importance of different steps. Some of the researches emphasise the integration aspect of the process as the more important as other points. Shrivastava (1986) suggests that one third of all mergers fail simply because of faulty integration. But many argue that integration is not the only important step. One of the authors to look at M&A deal processes was Jemison and Sitkin (1986). According to them, M&A deal process is only part of a bigger process and suggests that investigation of strategic fit and organisational fit are important steps prior choosing target company. In other words what they are saying, every part of the process can be important for the outcome of the M&A deal and can influence the performance in both directions.

In understanding the acquisition process, it is common to identify different phrases. For instance Haspeslagh and Jemison (1991), divided process into four phrases: idea, acquisition justification, acquisition integration and results. The first two phrases referred to pre – combination stage, while the other two were as post – combination stage. Even though the process is divided into four separate parts, at any given time they are interacting and if any issues, they need to be considered together.

Galpin and Herndon (2000) identified as many as six different combination phrases as seen in Figure 1.2 below.
Figure 1.2 Watson Wyatt Deal Flow Model by Galpin and Herndon (2000)

Similar to Jemison and Sitkin’s model, Watson Wyatt Deal flow takes into consideration the pre – acquisition analysis of strategic fit and organisational fit. In addition, Galpin and Herndon highlight the importance of motivation during all phases, as well as the leadership and retention of the key people. Even the author focuses mainly on the integration point, they are linking other steps of the process too. Hence, their model is based on the Jemison and Sitkin’s model, it is taking into account wider variety of issues and involves the entire M&A process. Galpin and Herndon have summarised nine sets of responsibilities for integration stage: focus on leadership, communication, HR issues (cultural HR integration, staffing re – recruiting), also efforts and tasks have to be measured as well as feedback needs to be provided, planning. By addressing these parts, companies can achieve a higher success rate in their merger and acquisition deals. However this will not guarantee the success as it is not a mathematical formula that you can simply follow to get the required outcome, but careful planning will positively affect M&A deal. As it is highlighted in Galpin and Herndon’s model, it is important to pay attention to people’s related issues at every step. According to an Economist Intelligence Unit Report (2008), almost forty per cent of corporate revenues are spent on people (salaries, bonuses, benefits, etc.), so it indicates how important this is to manage it. While Galpin and Herndon places a lot of attention on people’s issues in the integration phase, McKinsey & Company have suggested twelve best practices of M&A integration process (Figure 1.3) but concentrated
more on the operational side and puts attention on all stakeholders rather than on employers alone. Culture differences play a key role and the author suggests identifying issues related and intervening as needed.

Figure 1.3 Twelve best practices in M&A integration process by McKinsey & Company

2.5 BENEFITS OF M&A: VALUE CREATIONS

In general M&A is used when a company wants to achieve certain strategic and financial objectives. Main objective of M&A is wealth maximization of shareholders by seeking gains in terms of better financial and marketing advantages, diversification and reduced earnings volatility, synergy, economics of scale, improved inventory management; increase in domestic market share and also to capture fast growing international markets abroad. However, it is a high concern whether is creates value or not. There are number of different studies and theories on this subject. One of the key way to examine success (or increase financial profitability) of any investment, or in this case M&A, is by measuring shareholders returns. To get more accurate vision, those returns should be measured against returns that could be earned in another type of investment opportunity of similar risk. Bruner (2005) had investigated M&A failures scenarios and was able to extract the hard and instructive lessons learned throughout the process. According to him there are three possible M&A scenarios:
1. Value conserved scenario – the scenario is when investor or shareholder gets only what was required. So basically the M&A does not bring higher than expected returns.

2. Value created scenario – due to competition in market it is difficult to earn “supernormal” return and especially to sustain it over years. But in this scenario shareholders return exceed their requirements and higher returns are achieved.

3. Value destroyed scenario – in this scenario lower return are achieved than originally required by a shareholders, meaning that investment in another opportunity of similar risk would have been better decision. According to various research this is most common scenario. Three out of four mergers and acquisitions fail to achieve their financial and strategic objectives (Marks, Mirvis and Braskovich, 2005)

Depending on the motive of M&A itself, it can be judged whether it was success or not. Synergies or disruptions can increase or decrease operating performance, the financial performance will change depending one revenues combined from two companies and so on. Although most of existing M&A literature suggests that M&A transactions usually destroys shareholder value, new research shows that 60 per cent created value for the acquirer (Figure 1.4). Research formed that success rates have increased and M&A can create substantial amounts of shareholder value in any industry or region and actually in any point in the economic cycle.

Figure 1.4 Adapted from Accenture analysis by Herd and McManus (2012)
2.6 MOTIVES OF M&A

Various studies during the 1990’s have shown that mergers and acquisitions have failure rates of more than 50 per cent. Other studies found that eighty three per cent of all M&As fail to create value and half of them actually destroys it. According to Holthausen, what is amazing is that 80 per cent of board members from these companies thought their acquisitions had created value. This suggests that value creation is consistent with more than just a financial aspect, but also a strategic. It depends on the motive behind M&A deal. Despite evidence that M&A deal can destroy, many organisations pursued a steadily rising number of them from 2002 up to 2007 when the economic downturn kicked in. But despite the uncertainty in global markets, M&A numbers have started to increase again since 2011. So what are different rationales behind M&A deal? This question is raised more and more often and has raised more concerns.

An extensive body research has been made to study the activity of mergers and acquisitions and its effects to organisations. However limited studies have investigated motives behind deals which would be industry specific. Most research agree that M&As are complex phenomena shaped by even more complex motives, which can vary from deal to deal and no single theory can comprehensively cover all rationales. Mainly motives are classified into two groups either creating value to owners of the company (shareholders) or controller of the organisation (manager). These can then be further classified into macro level or micro level specific. Macro level studies suggest that motives rose from a specific period in time and that activity generally occurs in waves. Transactions frequency and monetary value can vary dramatically from relatively low levels to sharp increase. Jansen (in Picot 2002) have identified five main moves which occurred in U.S., which were agreed by Hunt (1990) to be applied for UK markets too (Table 1.1).
Table 1.1 M&A waives adapted from Jansen (in Picot 2002)

Currently M&A is undergoing its fifth wave. This era is known as mega-merger era where two big companies are formed into even bigger. Profound examples are Glaxo/Smithkline in pharmaceuticals, AOL/Time Warner in infotainment and Royal Dutch Petroleum/Shell Transport & Trading in oil and petroleum (Gupta, 2012). If to look from individual level, there are number of different reasons varying from industry to industry or can be very specific to one company on a deal to deal basis. One of the more comprehensive theoretical approaches on M&A motives was presented by Trautwein (1990). He identified three major types of motives: M&A as a rationale choice, M&A as a process outcome and M&A as a macroeconomic phenomenon. Those three classifications identify seven different theories which explain different rationales of M&A activities (Table 1.2).
Table 1.2 M&A motives adapted by Trautwein (1990)

Typically, it was assumed and concluded that M&A activity is a result of rational choice by either in favour of shareholders’ or managers’ benefit. What were added by Trautwein are two new nations: M&A as a process outcome which can be explained through Process theory and M&A as a macroeconomic phenomenon which can be explained through Disturbance theory.

<table>
<thead>
<tr>
<th>Motive</th>
<th>Theory</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. M&amp;A as rational choice</td>
<td>Efficiency theory</td>
<td>M&amp;A is planned and executed to achieve synergies of three types: financial, operational and managerial.</td>
</tr>
<tr>
<td>1.1 M&amp;A benefit (acquirer's shareholders)</td>
<td>Monopoly theory</td>
<td>M&amp;A is planned and executed to achieve market power. Horizontal and conglomerate M&amp;A may allow firms to cross-subsidize products, simultaneously limit competition in more than one market, and deter potential entrants from the markets, all of which result in higher market power.</td>
</tr>
<tr>
<td>1.1.1 Net gains through synergies</td>
<td></td>
<td>M&amp;A is planned and executed to achieve synergies of three types: financial, operational and managerial.</td>
</tr>
<tr>
<td>1.1.2 Wealth transfers from customers</td>
<td></td>
<td>A buyer is a person who causes wealth transfers from the stockholders of the companies he bids for in the form of premium or excessive compensation after a successful takeover.</td>
</tr>
<tr>
<td>1.1.3 Wealth transfers from target's shareholders</td>
<td></td>
<td>M&amp;A is planned and executed by managers who have better information about the target's value than the stock market.</td>
</tr>
<tr>
<td>1.1.4 Net gains through private information</td>
<td>Valuation theory/Investment theory</td>
<td>Agency theory</td>
</tr>
<tr>
<td>1.2 M&amp;A benefit managers</td>
<td>Empirical-building theory</td>
<td>M&amp;A is planned and executed by managers who thereby maximize their own utility instead of shareholders' value.</td>
</tr>
<tr>
<td>2. M&amp;A as process outcome</td>
<td>Process theory</td>
<td>M&amp;A decisions are outcomes of processes governed by one or more of the following influences: organizational routines, political games played between an organization’s sub-units and outsiders, and individuals’ limited information processing capabilities.</td>
</tr>
<tr>
<td>3. M&amp;A as macroeconomic phenomenon</td>
<td>Disturbance theory</td>
<td>M&amp;A waves are caused by economic disturbances. Economic disturbances cause changes in individual expectations and increase the general level of uncertainty, thereby changing the ordering of individual expectations. Previous non-owners of assets now place a higher value on these assets than their owners and vice versa. The result is an M&amp;A wave.</td>
</tr>
</tbody>
</table>

2.6.1 M&A AS RATIONAL CHOICE

2.6.1.1 EFFICIENCY THEORY

Efficiency theory predicts value creation with positive returns to both the acquirer and the target (Weitzel and McCarthy, 2009). This theory assumes achievements of synergies in both sides and those synergies are: operational, financial and managerial. Theory of corporate control however argues this point and does not assume improved synergies between both parties. This theory suggests that synergies are rather achieved by combining bidder’s managerial capabilities and the targets assets.

1. Financial synergies are achieved by lowering cost of capital and this could be achieved in three ways. First one is by investing in unrelated businesses. This way a company would lower its systematic risk of its investment portfolio. Second way is to increase the company’s size. This way a company may access cheaper capital. The last one is by establishing an internal capital market. Internal market can
allocate capital more efficiently by operating on superior information, thus leading to increased financial synergies.

2. Operational synergies can evolve by either combining separate units or from knowledge transfer. The example of combination of separate units could be joining sales forces or joining accounts personnel. In both cases achieving operational synergies would lead to lower costs of involved business units. It also may lead to possibility of a company to offer unique products and services. To gain operational synergies and get advantage out of them, they have to be weighed against the costs of combining or transferring assets, otherwise the synergy may have the opposite effects.

3. Managerial synergies are achieved by using bidder’s superior management tactics and planning in targets organisation. That would be most beneficial if a target company would be suffering from competence or motivational insufficiency.

Efficiency theory has received quite a number of criticisms. Even though the stock market values M&A positively, high number of them fails. Study by Porter (1987) showed that more than half of major U.S. companies who anticipated in M&A deals failed to achieve any of the three synergies. Most of the times synergies are used as a concept for managers to justify their decisions for M&A. However, it appears to have low connection with companies’ actual performance. The category that is mainly criticised is financial synergies. Research by Rumelt (1986) has shown that evidence do not exist for a lower synergetic risk or a superior internal capital market. However, another study by Kitching (1967) found that indeed financial synergies maybe achieved through M&A. Other two categories have been criticised too, but same study by Porter (1987) had concluded that those two synergies could be partially significant. More recent studies by Devos (2008) and Mukherjee (2004) found operating synergies being most significant source of gain. In the study by Devos (2008) from total of 10.3 per cent of synergy gain, 8.3 per cent arise through operational synergies. Mukherjee (2004) also found positive relationship between M&A and operational synergy. 90 per cent of managers, who anticipated in the study, identified operative motive to be a key driver for M&A deal.

2.6.1.2 MONOPOLY THEORY

Theory of monopoly states that market power is achieved by planned and executed M&A. This theory summarizes three main advantages of M&As which are called collusive synergies (Chatrerjee, 1986). These advantages are:
1. Company may cross-subsidize products.
2. Company may limit competition in more than one market.
3. Repel potential entrants from company’s market.

These collusive synergies can be realized from either horizontal or conglomerate M&As. However, there is no clear evidence for efficiency gains from the economy point of view. It can be concluded that collusive synergies may only transfer wealth from the company’s customers. This monopoly theory have been criticized by number of studies and they have revealed that there are no evidence that achieve market power is a motivating factor for M&A. Jensen (1984) looked at how competitors’ stocks reacts to M&As announcements or cancellations and found no relationship. Competitors’ stocks showed no movement and did not fall on announcements or cancellations of M&A deals. On the other hand Feinberg (1985) found positive relationship between efficiency gains and monopolistic competition. He found that relationship exists between multimarket contracts playing but it was found to be weaker on the industry level in comparison to the level of the company.

2.6.1.3 RAIDER THEORY

Main motive for M&A in Raider theory is value transferred from shareholders of the target company to those of the acquiring company. Trautwein (1990) argued that this theory lacks complete logic and empirical evidence to supports. In this theory ‘Raider’ is a person causing the wealth transfer. And this wealth transfer includes greenmail and excessive compensation after a successful takeover. Incomplete logic and no evidence come from a study conducted by Holderness and Sheehan (1985). Sixty nine M&As were investigated, which were done by some of the very well known ‘raiders’. The study found targets ‘shareholders’ to gain in all cases.

2.6.1.4 VALUATION THEORY/INVESTMENT THEORY

In this theory M&As are viewed as planned and executed by managers with better private information about targets’ value which is not known to the stock market. Trautwein (1990) suggested that bidder’s managers could potentially have unique information that combining the target’s business with their own may lead to possible advantages or they have found an under-valuated target which could worth a lot more if to be sold in separate pieces. The theory is criticised by number of authors and they clarify the point that valuation theory is not sufficient enough to markets. Despite all of the criticism, Ravenscraft and Scherer (1987) found evidence that M&A makers do justify their decision.
based on valuation theory. This was further proved by survey conducted in 1984 called ‘Companies feel underrated by the street’ by Harris poll (Business Week, 20 February, 1984). 60 per cent of executives surveyed believed that their companies are undervalued, 32 per cent thought that the value is correct as per stock market and only 2 per cent felt their company is overvalued. This means that the bidder with private information values certain assets more than the current owners. In this case private information works as genuine uncertainty. And this is one of the main differences from other M&A explanation theories, as genuine uncertainty plays a role in strategic decision process. What is fundamental is that not only the capital market participants cannot evaluate the information on which a bid is based, but also a bidder himself cannot do so (Trautwein, 1990). Based on private information, which cannot be measured, bidder will offer premium and this could be true as bid prices are also influenced by other prospect considerations such as the possible future value out of M&A.

2.6.1.5 EMPIRE BUILDING THEORY/AGENCY THEORY

According to this theory, M&As are planned and executed by managers intentionally to maximise their own utility instead of those of their shareholders. This would imply that company’s profits are put at risk in favour of personal power and benefits or maximisation of revenues. Even the theory has been given more credits than other M&A motive theories, it also have been criticized. Rhoades (1983) have agreed that power motive replaced the profit motive in 1960’s and that shows that growth maximization is not the only motive. In favour of Rhoade’s study, Black (1989) also found that managers seems to overpay for the target company because they either are overly optimistic or their interest is somehow different from those of their shareholders. In both studies managers are seen as cash wasters. On the other hand empire building theory was supported by Amihud and Lev (1981) and Walsh (1988). First study found a positive relationship between management control and engagement in conglomerate M&As and the second one have found that executed turnover is higher in merging companies than in non-merging companies.

2.6.2 M&A AS PROCESS OUTCOME

2.6.2.1 PROCESS THEORY

Process theory explains mergers to be an outcome of a process, whereas mergers are explained as macroeconomic phenomenon (Gupta, 2012). This theory explains that
company’s decision making process and its results are impacted by company’s simple routines, its social and political involvements, and its characteristics such as experiences of previous executive (Farschtschian, 2012). This theory is in direct conflict with other theories which explains M&A activity as rational decisions which were discussed in previous paragraphs. And it seems that process rational is weaker and is not supported by much empirical evidence (Trautwein, 1990). However, Trautwein concludes that there is evidence which largely supports process theory and he argues that indeed it has potential to explain M&A activity. The studies that criticize process theory do not exclude process from motives, but rather explains that M&A is combination of both rational decision and process such as planning, political influences and other criteria.

**2.6.3 M&A AS A MACROECONOMIC PHENOMENON**

**2.6.3.1 DISTURBANCE THEORY**

According to Gort (1969), rather than focusing on individual M&As, disturbance theory looks at waves of M&As in time vis-a-vis economic disturbances, which increase uncertainly and cause change in the expectations of owners and non-owners (Faulkner, Teerikangas and Joseph, 2012). This leads to merger wave when there is up-and downturn of the importance of M&As (Bosecke, 2009). However, other explanations have also been presented to argue this view. What was suggested by Laamanen and Keil, 2008) organisations tend to imitate each other’s practices such as M&A which looks to macroeconomic effects. Another proposition was made by Deans (2002) and he suggested product and industry life cycle considerations. On a further critical note, the disturbance theory has failed to explain two events. First one was 1973 oil crisis. Based on disturbance theory it should increase M&A activity, but did not affect it. The second one was during 1960’s when M&A activity was unbelievable high but there were no significant business events that could cause such high activity.

**2.6.4 SUMMARY**

This chapter explored different rationales for M&A transactions. Past research typically finds that transaction creates value for target’s shareholders and has no value or actually destroys value of acquiring company. Even if there is some value, there is no evidence that influenced this value. Partly it could be due to the fact that researchers from different disciplines apply different approaches when investigating M&A value creation. Similar is
with motives behind M&A transaction. Different research provides different determinants and even they are relevant, they do not provide a complete picture. Based on Trautwein’s (1990) survey we can classify M&A motives into three groups. First is the group with highest reliability and favourable evidence, however limited. This group includes valuation, empire-building and process theories. Second group includes efficiency and monopoly theories and both of them are believed to have more evidence, however, mainly unfavourable. The third group, which were concluded to be unreliable and unsupported by evidence, includes raider and disturbance theories.
CHAPTER 3 METHODOLOGY
3.1 INTRODUCTION

Worldwide M&A activity rose to record $4.367 billion in 2007 and the water industry were responsible for $463 billion from that amount. This shows a significant important change in M&A industry. Moreover for the first time in 2007 U.S. M&A activity was surpassed by M&As in Europe. This increase in M&A raises the importance of a deep understanding of the key motives for this trend and why more and more companies are considering M&A. According Boenning and Scattergood report (2011), water industry will continue to show sustained growth and continuing strong M&A activity in coming years.

As discussed in previous chapters the aim for this study is to examine the key determinants of mergers and acquisitions in the water industry in Europe. M&A activity can vary across regions and especially industry. The study focused on the European water industry, as this is believed to be more relevant. Water industry is a good example of an industry with large differences geographically and that water is to be new gold in the 21st Century.

This study relies on data provided by two chosen companies, and five individuals working in these companies, therefore not representing the whole population in the market involved in M&A activity. Any results and conclusions that were reached during this study can only be related to these two companies.

3.2 PROPOSED METHODOLOGY

The chapter of Methodology will explain most relative and appropriate methods and techniques that can be used while conducting study. Moreover, ethics will be discussed in more detail.

This chapter will outline proposed methodology used for this research. It also includes differences between primary and secondary research. Classification of chosen qualitative research will be provided, followed by outlining advantages and disadvantages of each. This will be done with research questions in mind and interviews will be explained in more detail. It is most popular qualitative research method and was used for this study, in order to pinpoint the forces driving a company to be involved in the M&A market, qualitative approach was used over quantitative because of the type of information required. Qualitative dimension brings in a strategic and political dimension to the study. As these two concepts suggests, quantitative studies relies on quantitative information (i.e., numbers and figures), while qualitative studies are based on qualitative information (i.e., words,
sentences and narratives) (Blumberg, Cooper and Schindler, 2008). Type of information needed for research is determined based on research objectives and as Mason and Dale (2011) explained the choice of methodology is mainly dependant on research questions. This study applied Sanders, Lewis and Thornhill Research Process ‘onion’ model (2009) in order to explore philosophies, approaches, strategies and data collection methods most suitable ones for this study. Author described the research process in an ‘onion’ shape with six layers as shown in Figure 1.5 below.

![Figure 1.5 The research ‘onion’. Source: Saunders, Lewis and Thornhill (2009)](image)

3.3 QUALITATIVE AND QUANTITATIVE RESEARCH

As discussed in previous paragraph, an accurate collection of data needs to be collected to support research objectives. Depending on data needed, author must first decide whether to use qualitative or quantitative method.

3.3.1 QUALITATIVE RESEARCH

There are a lot of arguments over what precisely qualitative research is. A qualitative research is defined as “a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data” (Bryman and Bell, 2011).
The most obvious difference from quantitative research is that this research tends to be concerned more with words rather than numbers. According to Ghauri and Gronhaug, due to modest insights qualitative research tends to be exploratory and flexible because of ‘unstructured’ problems. Moreover, it is concentrating on understanding the social world through an examination of the interpretation of that world by its participants (Bryman and Bell, 2011). This type of research can provide accurate and deeper insight into the attitudes and beliefs underlying the research objectives.

### 3.3.1.1 ADVANTAGES OF QUALITATIVE APPROACH

According to Denscombe (2007), the advantages of qualitative research are:

- There is a richness and detail to the data. Because it is relatively in-depth study focused on particular areas, this type of research deals successfully with complex social situations.
- There is tolerance of ambiguity and contradictions, social world involves complex issues and contradictions, and thus qualitative research is better able to accommodate this than quantitative research. But it doesn’t mean that the analyses are weaker in any way.
- There is the prospect of alternative explanations. There are no presumptions that at least one explanation must be correct in qualitative analysis. Thus this allows the possibility for more than one explanation to be world and this is because qualitative information is analysed using interpretive approach.
- The data and the analysis are usually ‘grounded’. A particular strength is that descriptions and theories generated by qualitative research are ‘grounded in reality’.

### 3.3.1.2 DISADVANTAGES OF QUALITATIVE APPROACH.

Disadvantages were also discussed by Denscombe (2007) and he identifies main five disadvantages:

- The data might be less representative. Data collected are ‘unstructured’. Thus requires more time to analyse and prepare. The findings may be difficult to apply to broader use.
Edited version of events is provided by researcher. As the decision is made by author about what is more important and what can be excluded, it can miss out some details.

As the findings are the creation of the researcher, it could be biased and might entail some upbeat positive filtering.

Findings are affected by social norms and personal values of the interpreter, thus it cannot be used as an ‘objective’ description of what really occurred.

3.3.2 QUANTITATIVE RESEARCH

Bryman and Bell (2011) defined Quantitative research as a research strategy that emphasizes quantification in the collection and analysis of data rather than words like in qualitative research. Attention is placed on the testing theories and it entails deductive approach in correlation between theory and research. Moreover, it embodies a view of social reality as an external, objective reality. According to Denscombe (2007), quantitative researches mostly associated with large – scale studies, where in contrast qualitative research in small-scale studies. This, on the other hand, is not a surprise, as quantitative research tends to favour larger – scale research where high levels of numerical and quantitative data is used.

Another different aspect of quantitative research is that it focuses on a specific factors and measures relationship against other specific factors.

3.3.2.1 ADVANTAGES OF QUANTITATIVE RESEARCH

Denscombe (2007) suggests five key advantages of quantitative research:

- Specific. The analysis is based on objective laws as quantitative data is based on the principals of mathematics and probability.
- Confidence. As results are back up by statistical information, it provides greater confidence for interpreter.
- Measurement. Findings are based on measured quantities and are less biased as the findings which are based on impressions can be checked by others for authenticity at any given time.
- Analysis. Large volumes of data can be analysed in short time, especially by using computer software.
* Presentation. Various charts and tables provide a better visual presentation of findings and data.

### 3.3.2.2 DISADVANTAGES OF QUANTITATIVE RESEARCH

According to Denscombe (2007) the disadvantages are:

- **Quality of data.** The quality of gathered data primarily depends on the methods used and questions asked.
- **Data overload.** Too many variables and factors to consider can hinder success of analysis as it could become too complex.
- **False promise.** Limited amount of variables can be assessed as unforeseen issues cannot be included into research.

### 3.3.3 CONCLUSION

After investigation of various factors about quantitative and qualitative research methods, the author decides that qualitative research method is more appropriate for this study. Due to exploratory nature of the research question and objectives outlined, qualitative dimension will bring in a strategic and political dimension to study. By answering the research question, author is expecting to understand key drivers behind M&As in European Water industry. Along with key motives, a qualitative approach will provide correspondents’ beliefs and attitudes towards M&A as a way for organisations to grow. To answer research question, events will be described as they naturally occurred.

### 3.4 RESEARCH PHILOSOPHY

This is first layer of the ‘onion’ but has the very same importance as other layers. According to Saunders, Lewis and Thornhill (2011), all layers are equally important. The research philosophy adopted not only outlines important assumptions about the way we view world, but also affects the choice of research strategy and methods. None of the philosophies are better or worse and the choice depends on research question and objectives. Interpretivism is adopted to conduct this research, which is ontological position that advocates interest in subjective meanings and interpretations of phenomena to detect what is happening in a specific situation. As each observation is subjective, research relies on multiple courses and different methods to collect information on the phenomena.
(Blumberg, Cooper and Schindler, 2008). Concepts of interpretivist were identified by authors as below:

“Interpretivist attempts to understand subjective realities and to offer interpretative explanation which is meaningful for the participants of the Research”.

Dresmann (2008) also explained that the use of an interpretative qualitative approach means as going back and forth between observed experience and social theory.

Based on above, also that small sample will be selected and because in-depth investigation is needed to ensure research question is answered, this philosophy is seen as most suitable for this study.

### 3.5 RESEARCH APPROACH

There are two approaches: deductive or inductive. Deductive approach includes developing a theory and hypothesis (or hypotheses) and then designs research strategy to test the hypothesis. While inductive is collecting data and developing a theory as a result of gathered data analysis. The inductive approach will be used as it is more suitable in concluding qualitative research data. The conduction explains the facts, and the facts support the conduction (Blumbery, Cooper and Schindler, 2008). However the conclusion is only a hypothesis and other facts can fit explanation just well as other. An inductive strategy of linking data and theory is more appropriate with small sample of subjects which is the case in this research.

Even the sample is small, inductive research is interactive, involving tracing back and forth between theory and data. Going back and read more theory is very time consuming and as a researcher is constraint by not only a deadline for thesis but also by work, it will be very difficult to follow and is identified one of the limitations for the author.

### 3.6 RESEARCH STRATEGY

Two case studies will be conducted for this research. These case studies are:

1. Waterlogic PLC, and
2. ABC Group PLC (Company’s name is changed due to requirements expressed by this organisation)
The emphasis of a case is upon rich understanding to the various issues related to M&A projects which were discussed in the interviews. As it is defined by Saunders, Lewis and Thornhill (2011), case study is a ‘strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. The case studies are constructed mainly based on secondary data, primary data and explorative data obtained through various techniques: interviews, company websites, their publications and press releases, newspapers and magazines.

3.7 RESEARCH CHOICES

A mono – method was chosen for this research. It will combine a single qualitative data collection technique: semi - structured in – depth and non – standardized interviews. According to Saunders, Lewis and Thornhill (2011), semi – structured interviews provide with the opportunity to ‘probe’ answers, where you want your interviewees to explain, or build on their responses. This is important if you are adopting an interpretivist epistemology, where you will be concerned to understand the meanings that participants ascribe to various phenomena. In order to answer research question and to explore more deeply knowledge in the research topic, two CEO, one CFO and two M&A directors will be interviewed from two different companies.

Rich and detailed set of data is expected to be gathered, as this type of interviews will enable respondents to provide significant and depth data. However, the research will have a list of questions prepared on each research objective so that specific questions would be covered. Indeed, questions may not follow exactly in the way they are outlined in the guideline (Appendix A), but similar wording will be used from interviewee to interviewee (Bryman and Bell, 2011).

3.8 TIME HORIZON

Cross – sectional research is chosen due to imposed deadline to finish thesis by 16th of August, 2013. According to Saunders, Lewis and Thornhill (2011), this type of research implies collecting data at a single point in time – ‘Snapshot’ interviews will be collected in a short period of time. Because the study is based on two case studies for which interviews will be used for collecting primary data, cross – sectioned research are more suitable than longitudinal studies, which are second type of time horizons.
3.9 TECHNIQUES AND PROCEDURES

3.9.1 DATA SOURCES

There are two ways the data can be obtained: primary and secondary sources. The validation of data is assumed to be dependent on the way that specific data is collected.

3.9.1.1 SECONDARY RESEARCH

It is often necessary to gather secondary data related to the research topic. It refers to information gathered from sources that already exist and are available to use. This type of data was used in literature review chapter. Even secondary data could be not sufficient enough to answer research question, it could save a lot of time and money, as the data is already available there to use. As an author is in full time job, the approach of using secondary data is a helpful activity in terms of time. Moreover, secondary data is important when analysing difficult and complex topics such as M&A and it brings in the advantage of audited information (Kumar, 2005). Also it is easier to get access than primary data.

One of the key roles of secondary data is to provide base for historical background information which will be used in analysing primary data (Sapsford and Jupp, 2006). For this study, secondary data will be collected from relevant books, academicals and business journals, reports. However, it is very important to identify appropriate sources that will be suitable for this type research. Even therefore, many advantages are associated with secondary data, it can be biased too. There is no guarantee that press cuts in newspapers or journals were not affected by political bias.

3.9.1.2 PRIMARY DATA

The importance of primary research depends on obtaining up to date information related to the research topic. According to Sekaran and Boungie(2010), primary data refers to information obtained first-hand by the research on the variables for three specific purpose of the study. Basically it is raw data that has not been analysed yet and therefore it is original in nature. It is the opposite of secondary data. Primary research takes longer and may be expensive.

3.9.2 SAMPLING

Sampling is mostly used when there are restrictions of time, money and often access to gather information. The full set of cases from which a sample is taken is called the
population. It could be the case that for some research questions it is possible to collect data from an entire population, but for this particular study, size is not manageable due to previously mentioned factors. As this study requires in-depth focus, it was decided by the author to use non-probability sample as it will allow for information-rich case studies. Also another reason for choosing this type of sampling was due to the fact that information gathering and access would be too difficult, expensive and long. Even this type is more biased, given the conditions of the research, it would be impossible to gather data from the total population, which are all companies operating in water industry in Europe.

Furthermore, purposive or judgemental sampling was used for this study, as it allowed the author to select cases that best enabled to help to answer research question and to meet objectives. As the author was working with a small group of samples, this was particularly informative. Based on all factors, the author decided to interview two CEOs (Chief Executive Officer), one CFO (Chief Financial Officer) and two M&A directors from two different organizations operating in the European water industry. Such sampling will allow the author to understand key angles of M&A strategy in each company, as well as to gain deeper knowledge for key motivations behind M&A transactions. In total five people were selected based on their expertise in the area of M&A in either current or past positions within their organisations. In-depth interviews were conducted face-to-face with each person and in some cases interviews were conducted over computer or phone.

3.9.3 INTERVIEWS

As this project is qualitative in nature, the author will use the most widely employed method – interviews. There are two main types of interview in qualitative research – unstructured and semi-structured According to Bryman and Bell, (2011), during an unstructured interview, the research used at most an aide-memoire as a brief set of prompts for him–or her to deal with a certain range of topics. This type of interview tends to be very similar to a conversation as there would be only just simple questions asked, the respondents could fully answer. While on the other hand, during semi-structured interviews, the research had a list of questions on fairly specific topics to be covered. This is often referred to as an interview guide, but the interviewee would have a great deal of freeway on how to reply (Bryman and Bell, 2011). Based on research question and research objectives, the author chooses to conduct semi-structured in-depth interviews. Adopting this technique will help to retrieve highly precise financial and strategic
information. It is more difficult for the interviewee to avoid some questions and errors of misunderstanding the question can be solved at the same moment, comparing to questionnaires where you do not have this possibility. As Byrne (2004) suggests, qualitative interviewing is particularly useful as a research method for accessing individuals’ attitudes and values (things that cannot necessarily be observed or accommodated in a formal questionnaire). Open-ended and flexible questions are likely to get a more considered response than closed questions and therefore provide better access to interviewees’ views, interpretation of events, understandings, experiences and opinions. (Qualitative interviewing) when done well is able to achieve a level of depth and complexity that is not available to other, particularly a survey-based approaches (Byrne, 2004). Semi-structured in-depth interviews are best suited to gather data about issues that cannot be measured precisely (Byrne, 2004).

3.9.3.1 DESIGN OF INTERVIEW QUESTIONS

Allowing the interviewee to talk freely throughout an in-depth interview is unlikely to lead to a clearly focused discussion on issues related to the research topic (Easterby-Smith, 2008). So to achieve success during interviews, it is important to be prepared and have questions ready which are formulated in a way to explore areas in which a researcher is interested. A list of questions is developed and used during each interview and cover a range of issues including M&A practices, their motives and benefits in each case. The questions are organized into four parts:

- Part 1 – participant and organization
- Part 2 – M&A motives
- Part 3 – M&A practices
- Part 4 - M&A benefits

The set of questions starts with general questions and then moves to more specific, topic related ones. Most of the questions are open-ended as it allows participants to define and describe the situation with deeper knowledge. This will also encourage the interviewee to provide an extensive and developmental answer about M&A related practises. Moreover, probing questions were asked to seek for an explanation from respondents where the author could not fully understand the meaning of a response and were the reasoning was not revealed. According to Saunders, Lewis and Thornhill (2011), probing questions are like open questions but request a particular focus or direction. Additionally, to open and
probing questions, the researcher used specific and closed questions, which were used to obtain specific information or where the author felt that fact or opinion confirmation was needed.

Nevertheless, question order varies depending on the conversation flow and both sides were able to raise additional questions not only to clarify issue but also to explore it further. The list of questions has been revised several times after discussions between the author and the thesis supervisor, also after the first interview some changes needed to be done to make the questions clearer. The list of interview questions is provided in Appendix A.

3.9.3.2 INTERVIEW PROCESS

As both selected companies are known to the author, so there was no need to look for different organisations that would be suitable for this research. A request for an interview was made by phone to both companies’ CEOs to explain the purpose of the research and to get permission to commence with the interviews and make a contract with companies’ CFOs and M&A directors. After all participants have expressed their desire to facilitate, the interview appointments were made for the interviews. The researcher was able to conduct all five interviews and the details of each are provided in Table 1.3

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Organisation</th>
<th>Position</th>
<th>Experience with M&amp;A</th>
<th>Interview duration</th>
<th>Interview type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeremy Bed-David</td>
<td>Waterlogic</td>
<td>CEO</td>
<td>20 years</td>
<td>60 minutes</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Peter Cohen</td>
<td>Waterlogic</td>
<td>CEO Commercial products</td>
<td>24 years</td>
<td>40 minutes</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Mathew Lee</td>
<td>Waterlogic</td>
<td>M&amp;A Director</td>
<td>13 years</td>
<td>30 minutes</td>
<td>Skype</td>
</tr>
<tr>
<td>Annie</td>
<td>ABC</td>
<td>Director of Corporate Development</td>
<td>10 years</td>
<td>40 minutes</td>
<td>Phone</td>
</tr>
<tr>
<td>David</td>
<td>ABC</td>
<td>MD of Water division</td>
<td>10 years</td>
<td>30 minutes</td>
<td>Face-to-face</td>
</tr>
</tbody>
</table>

Table 1.3 Description of interviews

As we can see in Table 1.3, the duration of interviews varied between thirty and sixty minutes. Originally the author was expecting to conduct all five interviews face-to-face but
due to some practical and time constraints it was not possible. As result different interview methods were used as seen in Table 1.3. Interviews were conducted during summer time when holidays are a very common event. Also there was the geographical distance between the researcher and interviewees. As a result author decided to conduct some of the interviews over the phone and some over computer program called Skype. Although a phone conversation did not provide the possibility of observing interviewee, the author could interpret from their voices or language. The interview conducted through Skype could be compared to face-to-face with probably only one limitation of not feeling comfortable as you would feel if you were in the same room.

During interviews, a list of question was used as guidance, however the question order varied and additional questions were asked. To facilitate more, an audio recorder was used for each interview and later it was transcribed into word documents for further analysis. According to Saunders, Lewis and Thornhill (2011), recording full interviews helps to control bias and produces reliable data for analysis. Moreover, the author was able to concentrate fully and listen attentively to what was been said, as well as observing respondents expressions and other non-verbal cues. Permissions were asked from each interviewee and during face-to-face interviews respondents had an option to switch it off but this option was not used.

3.9.4 DATA ANALYSIS

There are relatively few well-establish and commonly accepted rules and guidelines for analysing qualitative data (Sekaran and Bougie, 2010). Collected data can range from a short list of responses to open-ended questions or to complex data such as transcripts of in-depth interviews. However, for this data to be useful, it still has to be analysed so that theory could be developed from the data. According to Miles, Huberman and Saldana (2013), there are three steps in qualitative data analysis:

1. Data reduction,
2. Data display,
3. Drawing of conclusions.

First steps refer to selecting, coding and categorizing the data. It also includes preparing your data for analysis. First of all primary data collected during in-depth interviews that were recorded, were transcribed into written documents using the actual word. This was a
very time consuming task as interviews were long and the author needed not only to record exactly what was said but also try to indicate tone in which it was said but also participants’ nonverbal communication such as facial expressions. When data is prepared it is important to categorise it. According to Saunders, Lewis and Thornhill (2011) categorising data involves two activities: developing categories and, subsequently, attaching these categories to meaningful chunks of data. This will help to recognise relationships and further analyse collected data.

Second step data display involves organising and assembling data into summary diagrammatic or visual displays (Saunders, Lewis and Thornhill, 2011). This study used only one type of display suggested by Miles, Huberman and Saldana (2013) - matrices. Matrices are tables with columns and rows, where data is entered selectively into the appropriate cells.

Last step drawing of conclusions, involves drawing conclusions based on inductively analysed and selected qualitative data.

3.10 ETHICS

As described by Saunders, Lewis and Thornhill (2011) research ethics is:

“Research ethics therefore relates to questions about how we formulate and clarify our research topic, designs our research and gain access, collect data, process and store data, analyse data and write up our research findings in a moral and responsible way”.

Ethical concerns had emerged during every stage of research (Figure 1.6) and where carefully examined and addressed by the author.
Figure 1.6 Ethical issues at different stages of research

According to Saunders, Lewis and Thornhill there are number of different key ethical issues that research can face during study:

- Privacy of possible and actual participants;
- Voluntary nature of participation and the right to withdraw partially or completely from the process;
- Consent and possible deception of participants;
- Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity;
- Effects on participants the way in which you use, analyse and report your data and in particular the avoidance of embarrassment, stress, discomfort, pain and harm;
• Behaviours and objectivity of you as a researcher.

During the first stage of research, ethical issues have been considered and evaluated. In the stage of formulating and clarifying research topic, the author identified the importance of participants’ and everyone’s whom this research will impact. The right to quality research which also takes into account the current knowledge available. The author considered, what would not only be useful research for organisations which will participate, but also personal interest and assessment requirements which satisfies DBS. On the next stage, the key issue is the privacy of the participants and the quality of research. One of the key areas to consider was pressure to others within an organisation. One of the company interviewed for this study, is the employing organisation of the author. The other one is a key customer of this same company. Key temptation in these situations is to apply pressure to colleagues and subordinates to corporate. To avoid causing harm, the author accepted any refusal to anticipate in research and communicated this very clearly to every single person from which the author asked to participate. Also, the author considered this during collection of secondary data by not accessing personal data from internal sources such as personnel or client records. Information gained was voluntarily provided by the participants.

During data collection stage, key ethical issue were identified participants’ confidentially/anonymity and objectivity of the author. Even the participants agreed to take part, they still maintained their rights. This means that they had the right to withdraw as participants or refuse to participate in particular parts of the research. To avoid the situation where participants could feel uncomfortable, stressed or in any other way harmed the researcher made it very clear before each interview that they would have full rights to stop interview at any time or skip any question(s) the interviewees did not feel comfortable with or felt it was breaking their or their company’s privacy and went beyond the scope of the access agreed. One of the company interviewed requested an additional contract to be sighed, on top of NDA, stating that the company’s name will not be associated with any of the results directly and that their answers will be used as a general industry opinion.

Another key issue which was highly evaluated by the researcher was objectivity. To overcome the issue of not collecting valid and reliable information, the author made sure the data was collected objectively by avoiding exercising subjective selectivity on what was recorded. All data provided in the thesis was not fabricated in any way.
In the fourth stage of research, to avoid any misunderstanding or ethical issues the researcher followed eight steps suggested by Saunders, Lewis and Thornhill (2011), how personal data of participants should be treated:

1. Processed fairly and lawfully;
2. Obtained for specific, explicit and lawful purposes and not processed further in a manner incompatible with those purpose;
3. Adequate, relevant and not excessive in relation to the purpose for which they are processed;
4. Accurate and where necessary, kept up to date;
5. Kept (in a form that allows identification of data subjects) for no longer than is necessary;
6. Processed in accordance with the rights granted to data subjects by the Act;
7. Kept securely;
8. Not transferred to a country outside the European Economic Area unless it ensures an adequate level of protection in relation to the rights of data subjects.

In the last stage of analysing and reporting, objectivity of the author played a key role. Data used for finding and recommendations were full data collected during primary and secondary research and were not selective or misrepresented. Conclusions were drawn objectively and were not based by author’s personal beliefs and/or culture.

To conclude, qualitative research in general is more likely to be associated with a range of ethical concerns in comparison to quantitative research. Even all methods have specific ethical issues, qualitative method has a lower level as the results and findings are based on numerical data rather than the researcher’s opinion. As for this research, the author used qualitative method. In order to gain success, the author had to evaluate all possible ethical issues that might be faced. It took a long time to prepare and investigate to ensure protection privacy and interest of participants and data they provided.

3.11 SUMMARY

This chapter explored different types of methods that can be used when conducting a business research. Also it outlined most relative and appropriate methods and techniques used. An analysis of both qualitative and quantitative research methods were conducted, followed by outlining various advantages and disadvantages of both styles. After careful
analysis on what type of data is needed for this study, the author determined an appropriate research methodology as qualitative. When qualitative method was chosen, the researcher decided to use Research Process ‘onion’ model by Saunders, Lewis, Thornhill (2011) to explore different research philosophies approaches, strategies and data collection methods. The analysis of each helped to choose the most suitable ones for this study taking into account different factors. When all these factors were taken into account the author outlined the reasons for selecting an in-depth interview as the means of primary data collection in order to satisfy the forces driving companies to be involved in the M&A market. Next chapter will outline findings from these conducted interviews.
CHAPTER 4 FINDINGS AND ANALYSIS
4.1 INTRODUCTION

This chapter will outline the findings obtained from the interviews with the participating respondent companies, which will be followed by analysis of those findings by the author. A total of five semi-structured in-depth interviews were conducted with companies operating in the Water industry in Europe. Interviews were conducted with top managers within companies so that the author could gain in-depth knowledge which would be rich in information and would add value to current research. The consultation involved two companies operating in the water industry and these companies were asked a range of questions in relation to motivating factors, currents practices and benefits associated with mergers and acquisitions in their organisations. In order to extract rich and detailed practical understanding of the research question, all interviews were conducted in a semi-structured manner with open-ended and flexible questions. A question guide was designed to match research objectives in numerical order and same order was used for findings and analyses of each objective. This question guide was sent to each interviewee a week in advance so that participants’ would have enough time to prepare and could provide sufficient information (Appendix A). There were additional questions asked by both sides either to clarify question/answers or to gain more knowledge about particular topic. The interviews were conducted over a two week period from the 10th of July 2013 to the 24th of July 2013.

4.2 OBJECTIVE 1

To explore the current motivating factors for M&As in organisations operating in European water industry.

In order to satisfy the first research objective, the author identified from a literature review that in general the level M&A motives can be classified into two categories.

First category includes factors that focus either on shareholders’ interests or managers’ interest. Theories dealing with shareholders’ gains highlight gains through synergies or wealth transfers from customers or wealth transfers from targets shareholders or private information. Second category includes theories that view M&A as either a process outcome or as an outcome of M&A waves which are caused by business events. Outlined below are the seven factors by which companies are motivated.
4.2.1 SYNERGIES

Every respondent cited synergies as one of the major motivating factor behind their M&A activity. From an interview conducted with the CEO in Waterlogic, it was identified that the main motivating factor was from synergy perspective. The interviewee explained that as being a company which has integrated its business units vertically, they see a lot of synergies. Waterlogic mainly drives for achieving operational synergies such as combining sales forces, using existing distribution channels for acquired business, accounts/finance departments and marketing departments. The example was given from one of the regions that Waterlogic operates in Europe. When they acquired the business, effectively they targeted administration and back office functions. They typically are taken into main facilities in existing businesses. This way service operations and sales forces were merged and costs related to salaries, managing people and having facilities were cut. It was also explained that in another market in Europe, after acquiring a business distribution channels were combined and existing service vans were used in new acquired business which allowed to cut down on costs of delivering not only products, but also in providing service and maintenance. In Waterlogic, financial synergies were seen as a motivating factor too but not as important as operational synergies. What was interesting noticed is that in water industry companies are valued based on the number of products in the field. In Waterlogic M&A strategy to achieve critical mass in the market is very important not only for achieving financial synergy but also for overall business value.

Similar findings came from a second company interviewed. Synergies were identified as an important motive for M&A activity. The biggest attention is placed on operational and financial synergies whereas managerial synergies were not mentioned as an important factor, just as it is in Waterlogic. The importance was placed on measuring the cost of achieving those synergies. If we look at the company’s ABC strategy is to gain bigger market share and stronger position. Company is looking not only to have a bigger slice in the market place but also how effective the acquired business is. The example provided was in acquiring other business that is selling water coolers. The target company may look good in the books as it has high number of coolers in the market, but this does not necessarily means that the business is profitable. Another measure that is used and plays a key role is the size and number of the customers. Typically it is believed that having few key huge customers is highly valuable but it was not the case in ABC. They explained that having lots of small customers lowers risk for their business. Similar to Waterlogic,
operational synergies were identified as a key motivator too. Given a case of a few small acquisitions in one of the European country, a motivating factor was to lower distribution costs, therefore leading to achievement of effective servicing routes. If you have for example ten customers in one area, after acquisition you could add another thirty or forty new to the same route for same service team. Post M&A costs are cut on administration and physical office premises of a target company as typically they are taken in-house from acquired businesses. Also operational synergies are achieved through combining and restructuring sales forces, as well as cost cutting on professional fees such as legal, accounting and other fees for specialists’ advice and guidance, which in most cases have to be paid by small businesses.

These observations support the views held by Weitzel and McCarthy (2009) in which they state that M&A creates value by allowing a company to achieve three types of synergies: financial, operation and managerial. However, findings do not strongly support the third type and do not satisfy part where Weitzel and McCarthy (2009) discuss that value is created for both sides, which were also argued by corporate control theory. Other findings from this study can be aligned with the study conducted by Devos (2008) and Mukherjee (2004). In both studies operational synergies were found as key motivator and biggest proportion of overall synergies achieved. Waterlogic and ABC took a stance indicating that this plays a major part in their M&A activity.

4.2.2 WEALTH TRANSFERS FROM CUSTOMERS

Wealth transfers from customers and achieving market power was outlined by the representatives from both organisations as a reason for getting involved in M&A activity. As defined by Shimizu and Hitt (2005), market power exists when the costs of a company’s primary or support activities are below those of its competitors or when a company is able to sell its goods or services above competitive levels (Bosecke, 2009). It is believed by both interviewed organisations that achieved an increased market power, the company is able to decrease costs and realise higher revenues which will lead to increased company value. During the interviews with Waterlogic’s representatives it was highlighted that they are strongly using this motive for their M&As. The new acquired businesses within the country not only provides a possibility for cross-subsidising products but also combining business functions such as purchasing which may provide a competitive advantages by reducing costs, therefore leading either to increased profits or decrease
pricing which will help eliminate competition. Being a manufacture of the core products that a company is selling plays a key role and helps in offering them at a very competitive price. After acquiring business, even with a different type of product, Waterlogic can convert customers from acquired businesses into purchasing its core product which costs less and could potentially bring better profits from sales or services due to economies of scales achieved by a company. Cross-subsidising was also named as a core motivator. Overnight you can achieve high customer number where you can offer your products. Defensive motive was strongly favoured by the company too as below was said during interview:

“Sometimes we are motivated by defensive reason. If we would observe that one of our competitors is looking at purchasing a company which is one of our customers, we would look at the option to acquire it faster than the competition. If the competitor would actually acquire such a company, this would mean a loss of business to us as they would sell their products rather than continue to buy from us”.

This demonstrates that Waterlogic is not only a financial buyer but also strategic buyer. In general, M&A activity in the water business seems to be motivated more by market-driven strategies than pure financial considerations (Hoffmann, 2004).

This was also the view held by the respondents from ABC. The interviewees revealed that due to the nature of the organisation, they felt the need to buy products cheaper and cross-subsidise them. In some sectors where ABC operates, competition is very high as entry barriers do not exist and cheap, bad quality products from China are available for competitors. The economic crisis forced everyone to save therefore leading buyers looking for cheaper alternatives and quality do not play a major role in those cases. By achieving market power, ABC can benefit in two ways by either negotiating prices with suppliers and/or providing its full product portfolio in the acquired business.

This correlates with Bosecke (2009), which claims that this theory is relevant for companies that are based on stocks. Both companies interviewed are publicly listed. Also it was found to be in favour of Bosecke’s work is that this is a motivating factor for a company with better equipment that could lead a target company and increase its efficiency and productivity. It tends to be the case in both organisations interviewed. What was highlighted is that when considering M&A, they are both looking for companies with high potential but weak management or inefficient operations.
4.2.3 WEALTH TRANSFERS FROM TARGET’S SHAREHOLDERS

Together with disturbance theory, raider theory is believed to be least plausible motive for M&A activity. This was also observed in this study as none of the respondents placed any importance for this motive. It correlates with Trautwein (1990), where he suggests that gain is seen for the target’s shareholders rather than acquiring company or its stakeholders. Indeed the wealth could be transferred but only in a way of green-mailing were acquiring company’s shareholders could expect to get proposal with higher bid or the company could expect stock prices to increase through restructuring for example, which is suggested by Jensen (1984).

4.2.4 PRIVATE INFORMATION

Private information plays a key role in M&A activity in water industry. Even if it was criticised by Shackle (1972), that having private information provides the bidder only with the possibility to guess future expectations and it is situation of genuine uncertainly, it is still a widespread motivation for M&As. It was described that if a bidder has any information that is unknown to the stock market, he would need to provide it during his bid, but this is not necessarily true.

As it was suggested by Waterlogic that they would be looking for so called opportunistic M&As where they would see an undervalued company with the possibility to use either their superior management to synergise new business or sell one part of the new acquired company. One of the factors used by Waterlogic is looking for a potential company with strong small customer base and who are looking for quality of taste or cost savings and possibly convert them in purchasing Waterlogic’s core products. In this way personal information would provide key understanding about future strategy for new acquired business.

Similar were found in ABC. Private information is used as an advantage in engaging in trading. Private information on future strategies on acquired business or private information that lacked from inside of the target company’s, both means that there is a very low degree of competition among companies who are targeting the same company to acquire. A Bruner (2004) suggests private information is the buyer’s “sweet spot”. ABC is looking for deals where they would see an opportunity to either buy products at cheaper price or to supply their products to new acquired business. After careful due diligence,
ABC could see a potential of selling one of the parts of acquired business either because it drives down the overall business or by selling one part separately could mean higher returns than actually reselling the whole acquired business.

Overall, observed results concerning M&A deals due to private information are consistent with the view of Trautwein (1990) and Ravenscraft, and Scherer (1987). Indeed, private information drives M&A deals and is suggested to positively affect post M&A returns.

4.2.5 MANAGER’S PERSONAL INTEREST

It was observed during interviews with both companies that the value of businesses in water industry is measured mainly by number of products in the field. This strives to a conclusion that manager’s major goal would be to increase volume of sales, thus leading to increased earnings. During interviews, it was interesting to see the value placed on the number of contracts and sizes of them, but indeed efficiency of those accounts was taken into consideration as well. In either case, neither increase in volume of sales, or increased earnings are primarily correlated with the increase of shareholders’ gains (Farschtschian, 2012). According to the author such behaviour is explained as rationale to fulfil own personal goals. It was observed that possibly, top manager’s preference to M&A as a way to grow and expand could lead to potential risk to only become longer rather than gaining value to shareholders. Both companies interviewed highlighted few times the drive to build mass rather than increase profitability of the overall business. Farschtschian’s theory which states that managers consider growth of the size of the company that they are managing in order to fulfil personal ambitions. This theory was also strengthened by psychological research conducted by Marris in 1963. This research showed that to some extent managers do align their own sense of worth with that of the company. The higher worth the company has, the more powerful the manager feels. And as the companies operating in the water business are valued based on volume of sales, it could hinder achievement of increased shareholders’ value.

It is consistent with Trautwein (1990), Rhoades (1983) and Black (1989), who argued that M&A motive could potentially be personal manager’s power rather than profit motive. Another reason for managers to focus on size of the company could be executive turnover and other related bonuses. Typically it is judged based on volume of sales and / or earnings. This is consistent with findings in study by Walsh (1988). He found that executive turnover is much higher in merging companies than in non-merging companies.
4.2.6 PROCESS OUTCOME

From the process theory we can summarise that decision for M&A activity is the outcome of process that are already in place. As it was explained by Farschtschian (2012), these processes are influenced by individuals involved. It was indirectly observed within both companies interviewed. In case of Waterlogic, M&A activity was explained as preferred growth strategy not only because of unsuccessful previous attempts to expand geographically by the Greenfield, but also because it is much faster way to growth. Historically, in this company fifty per cent of overall growth is based on acquisitions. Although, company have experienced M&As that did not bring required returns, growth through M&As is seen as a core way to grow.

What was observed in ABC was that acquisition process itself has a crucial role in determining M&A activities and outcome. Bosecke (2009) argued that it is true that better M&A outcomes and frequency of activity are associated with characteristics of the process used to make and implement acquisition deal. High attention to post M&A implementation was observed in ABC:

“Integration phase is hugely important and it is often the one thing that people do not take seriously. Ignoring this phase, in most cases leads to failure of M&A deal”.

One of the issues raised in ABC was in becoming too big too fast. Growing through M&As and not considering full implementation of new acquired business could be the reason why the deal would fail. ABC stated that it could be the case that the M&A activity is happening due to the fact that top managers favour M&A over organic growth. In the literature M&A as a process outcome is seen paired together with rational decisions, which is also found in this research. Findings are aligned with suggestions by Trautwein (1990), where he explains that M&A motive is a combination of both rational decision and processes.

4.2.7 M&A WAVES CAUSED BY BUSINESS EVENTS

A section of respondents acknowledged that motives explains in Disturbance theory could be partly correct. As Bosecke (2009) highlighted, one of the economic disturbances is changes in the technology. A representative from Waterlogic stated that in some cases M&A motive can be to bring new technology, as it happened in a case of one acquisition in Germany. Similar was acknowledged by representative from ABC. One of the main
motives behind one of the cases to acquire new business was due to the fact that new technology would be brought in-house quickly. However, after due-diligence and careful market research, it was decided not to go ahead with deal. These findings can be aligned with the theory of Bosecke (2009), who proposed that M&A waves are caused by some of the economic disturbances.

The interviewee from Waterlogic maintained the view of defensive M&A, stating that M&A could be motivated for defensive reasons. This was not proven to be a strong case in ABC and they have suggested that defensive motive is not that important to their company to acquire. However, both companies had indirectly admitted that they tend to imitate each other’s practices. What was said is that if their competitor(s) are looking to buy another company, they will definitely consider in purchasing same company. Of course they would first analyze how it would fit to their organization and the value it could potentially bring, but still the main motivating factor behind it, would be to imitate competition. This correlates with Laamanen and Keil (2008), who indicates that organizations tend to imitate each other’s practices such as M&A, which leads to macroeconomic effects. This explanation argues the view presented in Disturbance theory and the view expressed by Bosecke (2009). Indeed, this theory may be only partly correct as over decades it failed to explain some core events in business world such as oil crisis. There were no significant movements in M&A market. But as observed during interviews, imitating competitors and changes in new technology can prove that in some cases motives which arise from economical disturbances may lead to changes in M&A activity.

4.3 OBJECTIVE 2 AND 3

To explore the current M&A practices in place in companies operating in European Water Industry.

To explore the benefits associated with M&A.

Both companies interviewed have a track record of acquiring businesses in the past decade. However, size and volume is considerable different. Waterlogic have made twenty five up to date, while ABC over two hundred. This could explain why current and future strategies seem to differ. Waterlogic is relatively new player in M&A field, while on the other hand ABC has experienced many M&As over years. It was also observed that the size of M&As differ between interviewed companies. Waterlogic tend pay over several millions for one
investment, while ABC is focusing on small acquisitions and small businesses. This could explained the fact that ABC puts so much attention on implementation and integration phases as they have many more to manage at one given time. What was identified is that benefits associated with M&A were named depending on each case. Whether planned benefits or opportunities have been met by the M&A, depends on the motive of each transaction. Interesting to see was that no matter what the motive was, its success always has to be measured financially. According to ABC, every motive would have to be measurable and mainly two figures would be looked at: profitability and numbers of years for return on equity. Obviously the lower the figure for years, the better the investment looks. Also it was mentioned that it is important to keep regularly measuring benefits gained from M&A deal and if it is adding any value at all. No matter how good the acquired business can look from information gathered during due diligence, it is highly important to focus on implementation and integration phases. Otherwise it could potentially fail. This clearly demonstrates the view presented by Shrivastava (1986) and Galpin Herndon (2000) whereby the faulty integration may significantly cause merger to failure. Integration is believed to be the source of value creation (Alaranta, 2005). And even most of existing M&A literature suggests that M&A transactions usually destroys shareholders’ value, a new study conducted by Herd and McManus (2012) have proved that sixty per cent of M&As investigated, created substantial amounts of value to shareholders. In ABC, to make sure that integration phase is going to the right direction, they are using Freedman’s post M&A integration model. The study by Holland and Salama (2010) has found that careful and well-planned integration strategies are responsible for achievement of desirable goals, in particular synergies between firms engaged in an M&A process. Another point raised by ABC in favor for M&A was time and risk. According to company, it would take long time to make bigger presence either in new sector or in new market if to by Greenfield investment. While M&A only needs a few months time (Friedman, 2003). Companies tend to make acquisitions because they know that it is the quickest way to establish a sizable presence in the target market (Wang, 2009).

It became apparent from the interviews with the various representatives from Waterlogic that in most cases measured performance has shown a track record of delivering on plan against acquisition proposals. Similar to ABC, in Waterlogic the most important part of ensuring a successful acquisition is the quality of the post M&A implementation phase. The biggest issue normally found in this phase was “data accuracy and data transfer”.

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Therefore M&A team needs to make sure that implementation program is in place and it is implemented on time and in full. Waterlogic have suggested that properly identified, sensibly valued and correctly integrated, M&As add shareholder value and provide great support to organic growth. Water industry is seen as a place of ‘land grab’ with new competition coming daily, therefore time is very valuable resource so M&A typically is seen as a way to quickly gain critical mass and snap opportunities quicker than competitors. Another reason to go through M&A identified from both companies interviewed, was that shareholders puts a pressure for continues growth. While organic growth is valuable and important factor for overall business, however it is believed to be too slow and may cost much more over years in comparison to M&A. According to Greve (2008), growth keeps its importance and is taking first place when evaluating company’s performance. Especially in public listed companies, shareholders puts significant pressure on managers to pursue company’s growth, because investors tend to reward the stock prices of fast-growing organisations (Kim and Halebian, 2011). However, such pressure could lead on higher risk strategies to stimulate such growth.

4.4 SUMMARY

With regard to a faster and substantial growth, the author found that both organisations interviewed had experienced these benefits by associating themselves with M&A activity. However, only Waterlogic have confirmed that most of their acquisitions during 2011 and 2012 have met required benefits. When observing motives behind M&A transactions, it was found that some of the drivers to be similar while other differ.

Synergies have been cited by various studies as being major motivating factors behind M&A deals. This was found from both organisations. However, the attention is mainly focused on achieving operational and financial synergies and only in rear cases managerial synergies. Achievement of operational synergies alone could influence companies’ decision to acquire, especially in markets where presence is low and not profitable.

With regards to a wealth transfer from targets customers, manager’s personal interest and private information, the author found that both organisations interviewed have placed attention to these motivating factors. All three are seen as important drivers for M&A activity.
Wealth transfer from target’s shareholders has been cited by various studies as being a motive for M&A activity too. However in contrast to this, the author found that this motive was not experienced by both companies interviewed. This links closely to the concept of M&A adding value to target’s shareholders rather than acquiring company’s shareholders by Trautwein (1990).

M&A as process outcome alone was not observed in any of the interviewed companies. It is only partly motivator and is typically seen to go with other rational decision motive. Again this links closely to the findings by Trautwein (1990), where he explains that M&A motive is a combination of both rational decision and processes. Similar findings can be concluded to explain Disturbance theory where M&A waves are caused by economic disturbance.

Having presented the findings and analysis of the interviews that were conducted by the author, next chapter will discuss not only overall conclusion, but also limitations experienced during this study and recommendations for further research in the M&A area.
5.1 INTRODUCTION

This chapter will incorporate various aspects of this research paper by concluding on the key findings of the study conducted. The limitations faced by the author will be outlined and suggestions for further research in the area of motive behind M&A in companies operating in European water industry will also be highlighted.

In the literature review, M&A arena in Europe were analysed, different waves were identified and activity of transactions in water industry was outlined. As M&A concepts are typically used as same concept, author provided definitions of both terms provided by Sherman and Hart (2006). An analysis of benefits associated with M&A was identified and success factors were discussed with suggestions from various studies how to increase success rate of M&As within organisations. The final section of the literature review was concerned with analysis the academic literature surrounding the research objective including different M&A motive theories. Different approaches were compared and contrasted and their validity to organisations was discussed.

The research methodology chapter was concerned with setting out the differences between qualitative and quantitative research and author provided main advantages and disadvantages for each type. After analysis of what type of data is required to answer research objectives, qualitative research method was identified as most appropriate for this study. Furthermore, detailed differences of primary and secondary data were provided. Finally, the section of the research methodology was described by using “Research Onion” model adapted from Saunders, Lewis and Thornhill (2009).

5.2 IMPLICATIONS OF THE RESEARCH FINDINGS

The purpose of this study was to research an area that is relatively new in Europe in water industry context. To investigate organisation’s decision to go for M&A transaction, the research focused on three objectives. There areas include the motivating factors behind M&A deal, the current practises, and the benefits gained from such transactions. This dissertation was conducted with intention to gain greater insight from an academic and practitioner point of view, and to gain understanding of these three suggested objectives based on primary research through in-depth interviews.

Operational and financial synergies were found to be a key motivating factor by all companies’ representatives. A major finding in the relation to this objective was that M&A
motive is a combination of both rational decision and processes which were previously regarded as separate motivations by the author. A major finding was the need to grow fast and substantial which was pressured by shareholders. Organic growth was identified to be an important part of the growth strategy. However, alone it was seen being too slow process which could cost even more over years in comparison to the result that could be achieved over night by M&A activity. As suggested by Greve (2008), growth remains its top position when evaluating company’s performance, therefore shareholders puts significant pressure on managers to pursue company’s growth as they are aware of the fact that investors are rewarding stock prices of fast-growing organisations. Another crucial finding was identified to be that wealth transfer from target’s shareholders is not seen as motivating factor whatsoever and that defensive motivator is named as an important factor in water industry as in general this industry is seen as highly competitive and companies need to react fast not to lose customer base.

When investigating the current practises in place, the author found that both companies interviewed are placing core attention on M&A as a growth strategy, but organic growth remains as an important aspect too to support further growth. Waterlogic is relatively new player to M&A activity, therefore its M&A strategy is more aggressive at the moment than the one observed in ABC. ABC have placed more attention to internal organic growth and integrating huge number of companies acquired over last decade. It could be due to the fact that not full potential and value have been gained from these deals and integration is believed to be the source of value creation. In both companies high attention is placed on implementation phase and both companies explained that that careful and well-planned integration strategies are responsible for achievement of desirable goals, in particular synergies.

5.3 LIMITATIONS OF THE STUDY

All research studies have limitations or weaknesses. This study was not an exception. This was the first time for the author to conduct such a research. To avoid and reduce level of limitations, the researcher had to rely on what was being said in various books and journals, as the author had no expertise in this field. Of course conducting this study, provided ability for the author to become a more experienced researcher and to apply theory in real world. There are number of limitations associated with this study and one of them was time. The researcher was constrained by time when carrying out both primary
and secondary research. The author was limited by a full time job and had limited free time. Also it was busy period at work and the researcher was not allowed to take any time off work. Another point of limitation was the ability to gain access to both: primary and secondary data. The author experienced that not all required Journal articles were available in the DBS library and had to access them through other sources which required additional spending. This also led to spending more time trying to find other sources with required articles or get them for free. On the other hand, collecting primary data required even more time and money. The chosen method of face-to-face interviews meant that the researcher would have needed to fly over to different countries as none of the participants were based in Ireland.

Getting the access to top people within chosen organisations was not difficult as the author works in one of them and the other one, as mentioned in previous parts, is one of the customers. But because the researcher saw a need to interviewee top management in order to get more richer information, it was difficult to arrange the interviews itself as participants could not find an hour or two in their busy schedules. And when they could fit it in, the author could not make it for various reasons associated with work.

One of the key limitation faced by the researcher was few attempts by one of the company to refuse to participate. Mainly two concerns were raised. One of them was because both companies were operating in same industry and are competitors in a way. Second one the type of information required from the companies was associated with internal strategies and this is very confidential information which is not even publicly published.

During the interviews key limitation was language and Dictaphone. The researcher’s first language is not English and interviews were conducted in English. This can be a limiting factor to the understanding of what is being said and could work as a barrier to an in-depth conversation. Also as every interview needed to be audio recorded it could potentially stifle responses to questions and raise issues of trust between the participant and the researcher (Denscombe, 2007). However, all respondents were informed about the interviews being recorded in advance and were required to be verbally approved before commencing.

The disadvantages of qualitative research as mentioned in section 3.3.1.2 can be a limiting factor too. The fact, that relatively very small group of companies were interviewed, this study could be less representative. The findings and recommendations will be provided for
the whole industry, even though it is the opinion based on few companies only. Ideally, this could have been expanded to more companies within an industry but as explained in above paragraphs, study was limited by time.

The last, but not the least limitation was the objectivity of the researcher. The author could oversimplify explanations to fit the need and this could limit accuracy of the study. As explained by Dewalt & Dewalt (2002), objectivity in qualitative research is broken down into two concepts – validity and reliability. Reliability is fundamentally concerned with issues of consistency of measures (Saunders, Lewis, Thornhill, 2011). Validity refers to the issues of whether or not an indicator (or set of indicators) that is devised to gauge a concept really measures that concept (Saunders, Lewis and Thornhill, 2011). Within the interpretative approach which is used in this study, reliability and validity are based on the researcher’s ability neutrally observe and analyse information for the study.

5.4 SUGGESTIONS FOR FUTURE RESEARCH

A number of areas of interest within the subject of M&A motives in water industry in Europe were observed during this study. In general the water industry is an interesting field for research as it is believed that water will be the next gold to 21st Century. Therefore it is associated with high returns for investors. Also the current tendency shows that number of M&A transactions in Europe is surpassing the deals in U.S and the increasing number of mergers and acquisitions in water industry is also no longer a surprise. Future research could analyse the importance of the strategic focus in the decision process as it seems that M&As in water industry are motivated more by market-driven strategies rather than purely financially. Companies in the industry are adopting vertical, horizontal and conglomerate integration strategies in an attempt to stay competitive in the industry were new competition is entering daily.

This study analysed the motives for M&A activity and benefits associated by those deals. Further research could also examine the long term performance of these M&A deals in order to establish whether the planned returns were gained and what effect it had for both sides: to the acquirer and the target shareholders.
5.5 SUMMARY

There are many reasons why a company may buy another company. M&A is rapidly expanding as a phenomenon in the business world. It has emerged as a way for fast inorganic growth which can allow companies to gain new capabilities and enter new growing markets more rapidly than they could on their own organically.

As it has been stated previously, the objective of this study has been to investigate motive behind M&A transaction in water industry which is relatively unexplored in Europe. It is the author's belief that all companies must continue to grow in order to sustain their competitive advantage. And the fastest and least expensive way to substantial growth was found to be through mergers and acquisitions. New researches have proved that M&A adds value to shareholders and therefore to gain this value companies must impose implementation and integration plan which would be fully implemented on time. In the absence of the successful integration, most M&A could lead to failure. Also it was mentioned that it is important to keep regularly measuring benefits gained from M&A deal and if it is adding any value at all. If it is not adding, then the plan must be changed and revised so that company could potentially experience positive returns.

In Europe rapidly changing business environment and constant pressure from shareholders for growth and faster returns, it has become a necessity for organisations to be involved in M&A activity. Organisations must be capable of dealing with this constant pressure and the new challenges which they face from competition in any given market and sector. The author believes that in order to satisfy those expectations, companies in water industry must actively anticipate in M&A activity no matter what the motive is.
6.1 INTRODUCTION

This chapter will include the process of Master thesis conducted by the author. It will examine the experience and planning during this time and will see how leaning and skills have changed and development. It will look at what leaning style the author has and how it affected the whole experience of undertaking Master thesis. In general terms this kind of reflection is needed to understand not only for what was leant but how it will affect author’s future in terms of extending on this learning and what value it have added in terms of employment. This reflective is part of the overall PDP (Personal Development Plan) which was conducted by author over MBA programme and will be an addition in controlling own actions and emotions and staying motivated no matter what situation or environment author is in. The personal development plan (PDP) is the process of creating an action plan based on awareness, values, reflection, goal-setting and planning for personal development within the context of a career, education, relationship or self-improvement. As Jackson and Ward (2004) suggest PDP is useful in becoming an active participant in critically evaluating own learning, wide range of skills that we could use in future career development and to help identifying personal strengths and future developmental needs. Personal development planning is a cyclical process and should continue right through your life. It is about enjoying your life while making conscious decisions on a daily basis about everything you do.

6.2 MBA PROGRAMME EXPERIENCE

“Anyone that can solve the problems of water, will be worthy of two Nobel Prizes-one for peace and one for science. He, who controls the water, controls everything.”- J.F Kennedy. During my employment in Logistics Company I developed a keen interest in the environment and in the ways to promote a safer and productive method of making the earth a cleaner place to live. I secured an office job in a large international company which promotes point of use drinking water coolers- Waterlogic PLC. I quickly saw the potential with-in the company. While in there I finished four year BA course in 2011. As a consequence I was promoted to a manager of Dublin office. New responsibilities were added to my daily workload such as negotiation of rent, stationary and utility prices. Other new task was management of HR department, including monitoring absenteeism, performance appraisal and reward programs. The new role given required me to develop new skills that I lacked and I felt that to be successful in this position and in order to
enhance my future promotion prospects I needed to gain more academical experience, improve current skills- time management and team work- and develop new one such- negotiation, people and presentational skills. I enrolled to do MBA in Finance also at DBS. Following conversations with lecturers and colleagues most CEO’s come from a financial background in business, which was the reason I decided to choose financial stream. Managing accounts, customers and other stakeholders requires skills and experience when setting up a business and helps to construct a good business plan. With both Management and financial skills acquired and with my drive for perfection in all matters I would be confident of my success.

During my MBA course company observed further potential in me and promoted me to the position of International Supply Chain Manager. This promotion took my level of responsibility to a whole new level- level to which failure was not an option. The expanse of my working day had increase somewhat, but by acquiring the necessary skills during MBA I could reduce my working time to a manageable level. I was able to build effective communication skills both oral and written. It enabled me to communicate even negative or difficult messages without creating conflict or destroying trust. Set of skills including nonverbal communication, attentive listening, the ability to manage stress in the moment, and the capacity to recognize and understand your own emotions and those of the person you’re communicating with. We had an opportunity to practise and develop public speaking skills when presenting written assignments. Another skill that was developed over MBA programme was collaboration and team work skills. Several of our assignment had to be done in a group or team setting, this was very new to me, used to be doing work on my own. Due to recent economic pressure in the markets MBA provided me the importance of cutting operational costs and especially the model developed by Taiichi Ohno, called ‘Just in time’(JIT), helped me in reducing inventory levels and transferring inventory into cash much more quickly. During the MBA we have learned about several business models. We have covered Porters Five Forces, SWOT analysis and PESTEL framework all of which I have started to use in work. I have helped the sales team with expanding into new territory by using Porters model. Also I have suggested the use of the PESTEL model to determine where best to move out manufacturing facility and this was later implemented by our company.

MBA proved to me that it is important to follow the industry updates in order to have good situational awareness so as to success. The MBA had also taught me that continuous
learning is directly related to constant improvement and I have had a chance to experience this because of doing both the MBA and progressing in my career at the same time. Current information is vital in today’s rapidly changing and highly competitive environment. During my MBA I have also increased the amount of daily sources I use for industry information (Appendix B- List of Journals and Magazine). The programme had made me aware of my ability to reduce or eliminate my weaknesses (Appendix C- Personal SWOT analysis).

6.3 LEARNING

According to Nolen-Hoeksema, Fredrickson, Loftus and Wagenaar (2009) learning is a relatively permanent change in behaviour that results from practise. People learn in many ways and are seen as continues process during whole life. As Kolb (1974) suggested we are learning from experience and that it is important to reflect on that experience. Later on this learning must be tested in new situations. Kolb’s Learning Cycle includes four stages as seen in Figure 1.7 and they are concrete experience, reflective observation, abstract conceptualisation and active experimentation. In order for learning process to be successful it is important to follow steps in sequence and learner must link the theory with action by planning, acting out, reflecting and linking it back to the theory.

Figure 1.7 Kolb’s Learning Cycle

As suggested above to learn we need to reflect on our experiences and developing such practises mean developing ways for such an experience to become routine in our daily lives which will lead to continues self-development. However, we all have different ways in how we learn. It is individual’s natural pattern of acquiring and processing information in not only new situations but also in the ones that we already experienced. Later on in 1986, Kolb’s theory was review and new cycle was suggested by Honey and Mumford.
where they suggest four stages to be: having the experience, reviewing the experience, concluding from the experience and planning the next steps. These steps were suggested to accord with work related issues such as managerial experiences of decision making and problem solving. Honey and Mumford identified four learning styles:

1. Activist: learn by doing; hands on approach; an open-minded approach to learning; focuses on brainstorming, problem solving and group discussions.
2. Reflector: learns by observing and thinking of what have happened; situation is concluded by viewing experience from various sides and collecting different data; do not rush into conclusions.
3. Theorist: likes to understand theory behind actions; needs models, concepts and facts to engage in learning; new information is analysed and concluded into ‘theory’.
4. Pragmatic: importance replies on putting learning into real life practise; likes experimenting and to try new ideas, theories and techniques.

By undertaking the Honey and Mumford Learning Styles Questionnaire, author identified to be an activist learner. This helped to understand where to focus on and what parts need to be strengthened to become a better learner in daily situations. Becoming all-type learner will bring benefits associated with learning from any type of experience and thus will lead to improved versatility. It will also open more abilities for further developments as awareness of how you learn helps on improving processes and skills.

6.4 PLANNING THESIS

The initial proposal for the thesis topic was to do with financial performance of acquiring company and a target company and how it changed post M&A. After discussions with people which are highly involved in the M&A area, it was decided to change topic to a more relevant, which would bring more valuable information which has not been evident in current literature. As the author sees a high potential in the water industry and is planning her future career in this field, as a result she have decided to analyse motivating factors that have influenced companies to go into the M&A market in this particular industry. The author had foreseen the changing trend for motives to be more strategic, rather than purely financial. Chosen research topic would add highly valuable information
and knowledge and would positively affect the authors’ future plan in becoming a top manager/CEO in the water industry.

In the preparation stage a current literature review was analysed and a gap was identified. It helped to develop an understanding of the proposed topic. A wide range of approaches in conducting a literature review were available in DBS library and by overlooking other thesis it helped to identify the fact that a literature review is no more than the current knowledge of an area. Using previous thesis as a guide, gave author a foundation to work off when searching for articles on motivating factors. It was found that most of the articles were relevant to financial drivers. One study written by Hoffmann on M&A in the water industry threw up some interesting points which were not previously considered. It was suggested that M&A activity in the water business seems to be motivated more by market driven strategies. As advised dissertation supervisor, author kept looking for current and academical information. Also it was suggested to compare and contrast rather than just describe the theory. The literature review was completed by balancing theory with application to research topic.

For the second chapter methodology, author investigated various research methods available. Not many studies were available where in-depth interviews were solely used, but in order to get current and deep information it was decided to use this particular method in collecting primary data. The number of companies and people to be interviewed were identified and approved by the supervisor. After the completion of methodology chapter, the next step was the implementation for the basis of the thesis.

6.5 IMPLEMENTATION OF THESIS

Having decided on a semi-structured interview approach to research question, author was lacking an ideas how to conduct and structure not only interviews itself but also questionnaire. Author went to DBS library resources and search for articles and books on how to conduct in-depth interviews for qualitative research. After regarding some articles (Wertz, Charmaz, McMullen, Josselson, Anderson and McSpadden- “Five ways of doing qualitative research; Friesen (2010) “Designing and conducting your first interview project”), questionnaire guide was created to be used during all interviews as a guide in order to make sure that all three objectives are discussed. The information gained during looking at these articles helped author to design questions in a way that deep knowledge
would be collected, and as suggested in these articles the best way is to have open-ended questions which would allow flexibility for respondents to provide information from their point of view. In the initial request to anticipate in research both companies had agreed, however after questions guide was sent, one of the companies have refused to anticipate claiming that it requires too much detailed information about internal strategy which is not even publicly provided. The other point of concert raised was due to the fact that both companies were operating in same industry thus could lead to providing too much information which could lead to loosing competitive advantages. Author overcome this barrier by using negotiating skills gained and applied them in this real situation, it was suggested to put in place additional agreement stating that company name will not be used in thesis and information provided during interviews will be used only as industry opinion. Agreement was signed, company’s real name was changed to company ABC and interviews were finally conducted.

After first interview, one of questions were deleted from the list as did not add any value to the discussion of research objectives and only wasted time during the conversation. Other than that, there were no changes made to originally prepared questionnaire guide and the right number of questions were there as none of the interviews went longer than asked from respondents. It is important to keep your promises to interviewees as you as a researcher do not want to cross that line where you put your respondents in awkward situation where they would need to stop you in the middle and some of the questions would remain unasked.

6.6 SUMMARY

This dissertation was conducted with intention to gain greater insight from an academic and practitioner perspective on the motivating factors for an M&A in water industry in Europe. In spite of this study’s limitations, the research process provided fresh perspectives in this field and forms bases for future discussions on changing trends. It is in author’s best interest that the findings and conclusions of this research will add value to better understand the key drivers that puts companies in M&A market in a specific industry that was analysed.

Knowledge gain will be used for future experience and situation and will be work towards author’s future goal in becoming top manager/CEO in one of the companies operating within the industry. Thesis process help author to overcome one of threats identified in
personal SWOT analysis and this was influencing people (Appendix C). After the situation where one of the companies refused to provide interviews, author used its research abilities and learned how to get to the point where people would agree to your opinion and do what needs to be done. There are many different ways for this to be reached and after careful considerations, author found a way to get interviews from this company.

• American institute of chemical engineers and John Wiley & Sons, Inc. (2010). “Guidance for process safety acquisition evaluation and post merger integration”.


• Bernile, G. and Lyandres, E. (2010). „Merger Synergies along the Supply Chain”.


• Byrne, B. (2004). “Qualitative Interviewing”.


• Flashwire Europe quarterly (2012). “Europe M&A News and trends”.


• Herd, T.J. and McManus, R. (2012). “Who says M&A doesn’t create value?”.
• Hoffmann, S.J. (2004). „Coming & going: Tracking and sourcing acquisition dollars in the water industry”.
• Kim, J. And Haleblian, J. (2011). “When Firms are Desperate to Grow via Acquisitions: The Effect of Growth Patterns and Acquisition Experience on Acquisition Premiums”.
• Zenith report (2012). “West Europe Cookers”.


APPENDIX A INTERVIEW GUIDE/QUESTIONS

These are guides, with more questions to be asked during Interviews

Research question:

Mergers and Acquisition motives in water industry- evidence from European market.

Definitions:

- Merger: A combination of two or more companies in which the assets and
  liabilities of the selling firm(s) are absorbed by the buying firm. Although the
  buying firm may be a considerably different organisation after the merger, it retains
  its original identity.
- Acquisition: The purchase of an asset such as a plant, a division or even an entire
  company.

Questions related to the interviewee and the organization:

- Name of the company
- Year of establishment
- Age/Gender
- Interviewee’s role within the company
- Interviewee’s Major responsibilities
- How long have you worked as CEO/CFO/M&A director in this organization
- How many years have you worked in M&A area? In how many different
  companies and what type of organizations they were (describe size, business)

Section 1 Questions related to Objective 1

Objective 1- to explore the current M&A practises in organisation

1. Why do you think company needs to grow? Bigger does not mean better.
2. What type of strategies your company is using to grow?
3. Why your company is not choosing to grow organically instead of through M&A?
4. What is current M&A strategy in your company and also how it changed
   historically?
Section 2 Questions related to Objective 2

Objective 2- to explore the current motivating factors for M&A in organisations operating in water industry in Europe

5. Which of the following are the main motivating factors behind the M&A transactions in your organisation? Explore which are not relevant or not used within your company.
   - Synergy (resulting from economies of scale)
   - Valuable assets of a target company
   - Increased market power (lower degree of competition)
   - Increase number of customers and volume of sales
   - Managerial efficiency (acquirer’s management is more efficient)
   - Excess capacity (extra cash available in organisation)
   - Lowered degree of competition
   - New technology

6. What are other motivating factors for M&A activity within your organisation?

Section 3 Questions related to Objective 3

Objective 3- to explore the benefits associated with M&A

7. Acquiring a business is a time-consuming and expensive process. Based on each transaction motivator, how your company is calculating to define possible benefits?
8. In regards to benefits from question above, are these then later compared to actual? If yes, what time frame you allow before measuring.

Section 4 Conclusion

9. Do you have any additional comments with regards to M&A in your organisation?
APPENDIX B LIST OF JOURNALS AND MAGAZINES

Journals
- Forbes
- Fortune
- The Economist
- Harvard Business Review

Magazine
- Food & beverages International

APPENDIX C PERSONAL SWOT ANALYSIS

Strengths
- Ability to work under pressure
- Quantitative skills
- Communication skills
- Creative problem-solving skills
- Ability to think analytically and strategically
- Negotiation skills
- Good leadership skills

Weaknesses
- Not always the most creative thinker when it comes to ideas
- Often too shy to put own ideas across/ not confident in my own work
- Not a lot of experience in supply chain
- Budgeting skills

Opportunities
- Cultural sensitivity and awareness- travelling a lot to different countries
- MBA in Finance
- New Italian language course
- I have promising industry contacts

Threats
- Not good public speaker- not confident with presentations
- Ability to adapt/change to new situations
- Influencing people
Interview Guide/Questions

These are guides, with more questions to be asked during Interviews

Research question:

Mergers and Acquisition motives in water industry- evidence from European market.

Definitions:

- Merger: A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organisation after the merger, it retains its original identify.
- Acquisition: The purchase of an asset such as a plant, a division or even an entire company.

Questions related to the interviewee and the organization:

- Name of the company
  Waterlogic Group Plc.
- Year of establishment
  1992
- Age/Gender
  50, Male
- Interviewee’s role within the company
  CEO
- Interviewee’s Major responsibilities
  *Major responsibility is reporting to the Board. I also take the main responsibility in terms of investment of the business.*
- How long have you worked as CEO/CFO/M&A director in this organization
  *I have worked as CEO since the company established in 1992*
- How many years have you worked in M&A area? In how many different companies and what type of organizations they were (describe size, business)
  *Only in Waterlogic and have been involved in M&A for 20 years*

Section 1 Questions related to Objective 1
Objective 1 - to explore the current M&A practises in organisation

1. Why do you think company needs to grow? Bigger does not mean better.

   I think that’s a fair question. Now as a company is publicly listed company, there is expectation for growth. It’s not just growth. It’s if only growth revenue in the long term, it is not worth anything. But hopefully as we grow and as we acquire more businesses, our returns will look better- EBIT, return on equity. Because this business is also driven by how many machines you have in the market on fixed overheads. If you acquire more machines you get more rental income. If you try to keep similar overheads then of course you become more profitable. Also for us because we are the only vertically integrated company in the industry, we see a lot of synergies. So growth should come with synergy and higher profitability. Shareholders invested in the business, though they saw big growth potential from the business. And their investments hopefully increase over time and as the company gets bigger and gets more valuable. It’s an issue of trying to maximise value and part of that is from the growth.

2. What type of strategies your company is using to grow?

   Both M&A and organic growth, however M&A is more aggressive at the moment.

3. Why your company is not choosing to grow organically instead of through M&A?

   We are growing organically too, it’s just that M&A is much faster way and you could reach substantial growth basically over night.

4. What is current M&A strategy in your company and also how it changed historically?

   We have received big amount of money in 2000, so we decided a long term distribution with them. We decided to take that money, not to invest in factory but to try and replicate what we did in the UK. So initially our strategy was more to try and get basic operations in what we considered to be the main market. A more geographical spread to get what we replicated in Waterlogic UK in the main market. So we bought our dealer in France, Germany, Norway and eventually US. So it was more a geographical spread to try to set a foot print. Today I would say that it is changed a bit in that most of our acquisitions, except for the very recent one in Australia, most of our acquisitions have been trying to get central mass so in other words to increase the amount of machines in the field in existing markets. So like in Norway we bought many companies over the years and we have a very profitable business because we got critical mass. In France for example we had not found
good acquisitions since we bought our dealer there. If the company is too small it is too difficult to make good profits, because you have fixed overheads. We have not got enough machines in the field. It’s very difficult to grow organically and expensive to grow organically. Sometimes we have acquisitions that are, but don’t happen very often, to bring new in technology. When we bought business in Germany, it was because we wanted to enter the Hospital market and they had machine that was more suitable to high volume for that market so that was the reason for that acquisition. It was not for the customers but it was buying to enter a new segment through different technology. Another area I think may change in the future is that we can buy a company who are selling different products and after acquisitions we can change their clients over time to our products. That’s been a profitable acquisition for us. That may be an area for the future.

Section 2 Questions related to Objective 2

Objective 2: to explore the current motivating factors for M&A in organisations operating in water industry in Europe

5. Which of the following are the main motivating factors behind the M&A transactions in your organisation? Explore which are not relevant or not used within your company.

- Synergy (resulting from economies of scale)
- Valuable assets of a target company
- Increased market power (lower degree of competition)
- Increase number of customers and volume of sales
- Managerial efficiency (acquirer’s management is more efficient)
- Excess capacity (extra cash available in organisation)
- Lowered degree of competition
- New technology

I hate to tell you there is no straight answer to that, it depends on the acquisition. Today it would be operational synergies mostly. Another example I could give is we had one company on one side of the country and our objective was to become a national player in the whole country and especially in that part of the country. So we acquired another two companies. Basically when we had a base on the one side with one company, we started looking for operating synergies. Bring the back office in, other synergies we could bring
in. Cheaper products provide same servicing for lower costs. Other points there like managerial efficiency, because if you can rid of management that’s a synergy of course.

Another would be opportunistic acquisitions or as you say something may change in the market. If we see a competitor is going to buy and we want to buy that company. By the way one thing you have not put there, which I think is motivator, is a defensive acquisition. I will give you an example. We have one company in and we notices that one of our competitors is looking to purchase the company which is one of our customers. If you know that a competitor is going to your customer, and then actually you might lose business because if for example a company called X or Y buys one of your customers, they will purchase products from them and not our products. That’s a defence acquisition and sometimes we are motivated for defensive reasons.

6. What are other motivating factors for M&A activity within your organisation?

It really depends on the M&A to M&A. But mainly it is to gain mass and operation or financial synergies.

Section 3 Questions related to Objective 3

Objective 3- to explore the benefits associated with M&A

7. Acquiring a business is a time-consuming and expensive process. Based on each transaction motivator, how your company is calculating to define possible benefits?

8. In regards to benefits from question above, are these then later compared to actuals? If yes, what time frame you allow before measuring.

Note: answer for Question 7 and 8 is combined together

First of all when we present to the board and get approval for the acquisition there is a business plan attached. That’s usually a 3 to a 5 year plan accurate or as accurate as you can best do it. The main thing we look post M&A is Nett profit value and return rate of investment. We try, depending on the type of acquisition; we tend to look for different returns. Probably the minimum return would be 10-12% and normally it’s as higher as 18-20%. It depends on the type of acquisition and risk we think we have with that acquisition. We don’t measure on a year. You can’t measure something on a year so it’s measured against the business plan. We keep the original business plan justification to the Board.
I think that’s certainly the main measurement we would use is financial aspect. We will sometimes have a particular strategy. If the acquisition is to stop a competitor say sometimes it is not the return you seek, it’s to stop someone else acquiring it, we do look at that as well, and it is much harder to measure financially of course. We just talk about it in general terms if you know what I mean. We always look at return on investment. That’s number one. We look at other things like competitive advantage or strategically aspects.

Section 4 Conclusion

9. Do you have any additional comments with regards to M&A in your organisation?

You have pretty much discussed all the areas that I could think of in terms of M&A, just one note about water industry. The interesting to be is that mainly the value of the business is measured based on the products in the field. Not just number of products but also it is important to distinguish what type of products in the field, the ones that create value. The ones that are more important are the ones at rental and have recurrent revenue. And yes I think it’s still used as an important measure in the business. With products on rental, that reflects your cash flow potential and when companies want to buy other companies, we look at that measure.

APPENDIX E INTERVIEW TRANSCRIPT ANNIE

Interview Guide/Questions

These are guides, with more questions to be asked during Interviews

Research question:

Mergers and Acquisition motives in water industry- evidence from European market.

Definitions:

- Merger: A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the
buying firm may be a considerably different organisation after the merger, it retains its original identify.

- Acquisition: The purchase of an asset such as a plant, a division or even an entire company.

Questions related to the interviewee and the organization:

- Name of the company
  
  *PHS Group Plc.*

- Year of establishment
  
  *1963*

- Age/Gender
  
  *44/Female*

- Interviewee’s role within the company
  
  *Director of Corporate Development*

- Interviewee’s Major responsibilities
  
  *I am responsible for M&As within the Group*

- How long have you worked as CEO/CFO/M&A director in this organization
  
  *I have worked for the company for twenty five years or so and I have been in this roll ten years*

- How many years have you worked in M&A area? In how many different companies and what type of organizations they were (describe size, business)
  
  *10 years in total and all of them in current company*

Section 1 Questions related to Objective 1

Objective 1- to explore the current M&A practises in organisation

1. Why do you think company needs to grow? Bigger does not mean better.

   *Why does it need to grow? Strengthen our market position because as with any business, them look to optimise their profit level, potentially grow to a place wit ere its more attractive for a potential buyer for the business, so you know it terms of decisions to grow there are lots of you know factors with-in that. But they would certainly rank amongst the top.*

2. What type of strategies your company is using to grow?
I think it has been a combination of the two. It has not been an either or. So you know I don’t think any company can afford to just build on acquisitions alone. There has to be some sort of investment into organic growth. The priority certainly under our past management, the business heads were pushed to deliver organic growth. It was not the business heads that were responsible for delivering acquisition growth. That was down to the acquisition team. So equally you could push hard in both areas if you see what I mean. So the M&A’s would have been pushed harder to deliver the best that they could in terms of winning on business, reducing cancelations. All the normal things you would expect to see, to hold into your margin, and it would be down to the acquisition team then to bring in accelerated growth which what acquisition does. You know it could bring that much quicker. To be able to acquire that level of revenue or that many customers over –night it would take a long time organically. Leadership we had was using a very aggressive acquisition strategy. But to do an acquisition business has to be in good health, because you need to have the leverage to borrow to make the acquisitions or you need to generate to cash internally throughout managing your core business very well. So that you generate cash so that you can then fund your own acquisition programme but you know if a deal comes along and you think we can’t cover that internally we need to go to our investors or we need to source extra funding then you need a strong story when you go and ask for that potential funding. For that position that means a good return on investment. Also because you happen to be buying is water cooler companies for the last 3 deals this doesn’t mean that you have to continue to purchase in this sector. You need to widen up your M&A portfolio.

3. Why your company is not choosing to grow organically instead of through M&A?
We are using both at the same time. As mentioned previously none of the companies can afford to grow only through M&As and the simple reasons are that you have to build strong base internally if you want to successfully integrate new acquired business and gain any value from them.

4. What is current M&A strategy in your company and also how it changed historically?
We had very aggressive M&A strategy over last ten years which we see now changing and we would see our company concentrating more on organic growth and fully integrate acquired businesses. Of course M&A is still part of our growth strategy.
Section 2 Questions related to Objective 2

Objective 2- to explore the current motivating factors for M&A in organisations operating in water industry in Europe

5. Which of the following are the main motivating factors behind the M&A transactions in your organisation? Explore which are not relevant or not used within your company.

- Synergy (resulting from economies of scale)
- Valuable assets of a target company
- Increased market power (lower degree of competition)
- Increase number of customers and volume of sales
- Managerial efficiency (acquirer’s management is more efficient)
- Excess capacity (extra cash available in organisation)
- Lowered degree of competition
- New technology

It can be different for each one and I know that is not an ideal answer to give you, but when you look at an acquisition strategy it might be a geographic driver because you might look at the country as a whole and think actually you know in Wales for example you know our roots are not very dense its quite costly to get around to our customers because we just don’t have that many customers in that area. Where as if I go and find perhaps one or two small acquisitions in that area, all of a sudden we inject that customer base into our rooting so our rooting then is strengthened so instead of our drivers going to serve only 10 customers in a route they might service 30 or 40 in a route, so the efficiency you get, the cost savings that you get in providing same service. Equally it can work against you. So if you look at a business in London you might have much higher cancelation rates in London because there you can find many more competitors in highly populated area. So actually you could well attribute a much lower valuation to a company in London because customers have a lot more choices and because much higher cancelation rates, because you know customers are tree to switch and there are many more suppliers with cheaper products imported from China. So you know geographic expansion is certainly a factor when looking at the value of an acquisition and I said it can go both ways. But it could be customers so say we are number 2 in the market. We always strive to be number one in any given industry we operate in or close to, so you know I can pick up a business that would
make us number 1 in the market. To become number in the market for example it could be just a number of customers so in that case this would be our motivating factor to gain mass and secure market position. The defensive acquisitions wouldn’t be that important to us.

6. What are other motivating factors for M&A activity within your organisation? 
I think you covered all main ones that we use and the answer I provided would be the ones we use or used in the past as a motivation for M&A deal

Section 3 Questions related to Objective 3

Objective 3- to explore the benefits associated with M&A

7. Acquiring a business is a time-consuming and expensive process. Based on each transaction motivator, how your company is calculating to define possible benefits?

8. In regards to benefits from question above, are these then later compared to actuals? If yes, what time frame you allow before measuring.

Note: answers for Question 7 and 8 is combined

It’s measured regularly. Certainly at the point of 3 month post acquisition we would expect the main integration to have taken place. Certainly steps are taken in terms of extracting the synergies so if we take a typical acquisition we would expect see benefits straight away by cutting down costs on service personal but that is a relatively small figure. Typically because you still need to provide the level of service the customer is contracted. You would certainly see a lot administration costs taken out so that is maybe typical admin heads in an office. You would expect from the office itself to be given up. So when we are buying a business typically we just ask for access to the sites for 3 months post acquisition, then at that point we will absorb it in-house and then the actual physical premises stays with the seller. So you won’t see the extractions of company costs coming out of the original PNL. Sales force would defiantly be combined; also you would see new business to be restructured. The area that we would certainly look at is supplier’s costs. Maybe you have greater economies of scale in terms of your purchasing power of a much larger organisation than smaller business has been able to negotiate. So you may have some cost savings but also things like legal, accounting, that sort of things that small business have to pay for specialist advise guidance. We typically have it in house. Maybe we could supply products cheaper to new acquired business or buy in products cheaper than before. There
may be some cost there to come out but those are usually measurable if we said we are going to see a cut of 20 heads than that’s measurable. So after 3 months you should be able to see if a redundancy programme is running ok. For example if we served notice on the premises, have we looked at who suppliers are and agreements with them in terms of prices... and so those sorts of things are. Return on investment would be major measurement. So when we do an evaluation we have to understand how many years we think it’s going to take to recoup invested amount. Though is it going to be 3 years or 5 years or 7 years, depending on the level of offer made to investors. And obviously the lower that figure the better for an investment proposal you look for approval. In terms of measuring benefits it would be firstly three months post acquisition and then a year later to see how we have performed to our original forecast.

Section 4 Conclusion

9. Do you have any additional comments with regards to M&A in your organisation?

Important is to understand why you are doing the acquisition. You have to analyse your own business first to make sure you are acquiring for all the right reasons, and you are not to accelerate the new business coming in. If you have not fundamentally looked at why you are losing business in the first place or you have to be very clear on what your reasons for. Make sure your evaluations are through at best and that your proposal you write to put forward to your investors is a good one. Test yourself before it even goes to the investors is it the right deal. And weather the opportunities cost are looked at. And if you don’t make a deal, where else could you better spend that money. There might be other acquisitions that might return a better return if you like or it could be better spent organically on new equipment on a site or recruiting more sales staff to do the same job. As you can through acquisitions is not cheap process so it’s about making sure that all sorts of assessments are done as well as you can, so that you are confident that you’re not just riding the acquisition trail just because you have the money in your pocket and you can.
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