

University of Twente

A merger between SKWT and KOOS

How to integrate in order to remain jointly an independent organization

Title: A merger between SKWT and KOOS: How to integrate in order to remain jointly an independent organization

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Preface

This thesis is the final product for receiving the Master degree in Business Administration at the University of Twente, Enschede. This research was commissioned by SKWT and KOOS, which are both foundations that offer a variety of childcare services. The research took place at the two organizations and started in February 2010 and lasted till July 2010.

This research is intended to give the management of both organizations insight in the possibility of a merger. Both organizations are studied on strategic and organization fit, in order to find the most appropriate integration method.

This final product was not achieved without the help of others. I want to thank Gert Postma for providing a suitable thesis subject. With Gert and Rob Hunneman we decided to find the most appropriate form of collaboration. After Prof. Dr. Roosendaal took over the supervision of this thesis it was jointly decided that only one form of collaboration should be investigated: a merger.

I want to thank SKWT and KOOS for the opportunity to conduct my research within these organization. A special thank goes out to Gert Postma from SKWT and Rob Hunneman from KOOS for their help and guidance throughout the entire process. Also I want to thank them for their patience in waiting on this final product. Also my supervisor Prof. Dr. Hans Roosendaal owns a special thanks for his critical feedback, patience and guidance during the research. A final word of thanks goes to Dr. Kasia Zalewska-Kurek who's comments helped to make this thesis more understandable.

With the help of my parents and my girlfriend Roos I overcame the challenging periods during this process. I want to thank them for their coaching and their words that gave me the motivation to finish this thesis.

Auke ten Bokum

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Management summary

This master thesis seeks to understand the conditions under which SKWT and KOOS can merge best. Both are regional players in the childcare market, and this market becomes more turbulent. As new entries enter the market and the demand is likely to stagnate the coming years, the market will balance causing the occupancy rate of SKWT and KOOS to drop. Also the larger existing competitors in the market must be taken into account as they have an aggressive growth strategy. In order to withstand against these threats and trends, a possibility is to merge with one another. This will create critical mass against take-over by competitors and can give the organization a better financial position to deal with the stagnating demand. In order to achieve these results the merged organization must create more value together than SKWT and KOOS separately do. This can be achieved through integrating the two organizations. How to integrate and under which conditions this will be most successful is studied in this thesis. In order to find the most ideal conditions several models how to successfully integrate two organizations were studied. The organizations have to have a certain degree of fit in order to achieve a successful integration and thus merger. The fit can be measured by analyzing the strategic and the organization fit. The strategic fit consists of analyses of the industry and market the organizations operate in, the products, or in this case the services they provide, and to which customers, and finally a financial analysis. The organizational fit is found by analyzing the administrative, the cultural, and the personnel practices and characteristics. Also the structural characteristic of the merged organization is studied. These analyses are combined with a model about integration approaches. This model suggests that the merger is most likely to be successful when the most suitable integration approach is applied. There are three possible integration approaches: The absorption, the symbiosis, and the preservation approach. The absorption approach suggests an immediate integration, while the preservation recommends not making any integrations. The symbiosis approach uses a gradual path to a full integration.

Which integration approach is most suitable depends on the need for strategic interdependency and the need for organizational autonomy. The former is concerned with how much integration must take place in order to create value and is defined as: sharing of heterogeneously distributed strategic resources; the latter is concerned whether some, or all, parts should stay independent in order to preserve the value and is defined as: self-governing in deciding about value proposition and market segment. In order to create value, two organizations must integrate: the boundaries between the two organizations must be disrupted. By this disruption capabilities and resources can be transferred within the merged organization. But some capabilities may be destroyed when they are integrated. In order to prevent that, organizational autonomy is needed. The way capabilities and resources are transferred, through operational resource sharing, functional skill transfer, or general management skill transfer, is an indicator for the need for strategic interdependency.

In this single case study three types of data collection methods are used: Interviews, observation, and document analysis. The most dominant data collection method are interviews. Some of the themes that were discussed were conceived in advance, others came up during the interviews. This, and probing further, allowed real and good data to be obtained. In order to collect data and obtain information about past events and decisions, various documents were studied. These documents also served to support the various interviews. The interviewees might express their own opinion, or give answers that are influenced by their personal opinions. By using the documents the data became more reliable. The final technique that was used to gather data was observation. The

researcher spent a half year at both organizations to do his research. During this period observations were made. These observations are particular useful to obtain tacit data like cultural characteristics and the degree of formality. Without observation it is hard to study the cultural practices of an organization. A final reason for using multiple data collection methods, is to create triangulation, which ensures that the data is telling what you think it is tells. Because this is a single case study, the results of this research will be hard to generalize, which lead to a weak external validity. This study has multiple units of analysis, because it does not investigate SKWT and KOOS, but the persons and departments within these organizations.

The advantages of merging SKWT and KOOS can be found in different aspects. The first is knowledge sharing. While they are both working in the same industry and both offer the same services, the way of working is slightly different, but the vision is the same: offering high quality childcare service. By integrating the merged organization can learn from both former organizations and integrate the best of both worlds. This will lead to an even higher quality. The size of the merged organization compared to SKWT and KOOS separately will also be an advantage. Large competitors are less likely to enter a region where a large organization is already present. The size of the organization also brings advantages like buying power and market power. Another advantage of merging can be found in the financial added value. In order to obtain these financial advantages the merged organization must integrate the two former organizations. This integration then leads to economies of scale, because costs can be saved on several doubly occupied functions. These functions are mainly in the departments Finance and Control, (Client) Administration, and the Facility department. The HRM department cannot be integrated, because SKWT and KOOS already share their HRM department. For the merged organization it is important to obtain and maintain an optimal spread of the locations. Without this optimal spread the merged organization becomes more vulnerable for competitors. Therefore, the locations cannot be integrated.

When the merged organization integrates the various parts, the financial situation will be different compared to accumulated financial situation of SKWT and KOOS. By cutting off doubly occupied functions, moving to one central office, and taking advantage of the buying power the operational costs will decrease with €180.000. The high cash position of the merged organization can be used to pay off some of the long term debts. This will lead to a decrease of €112.000 in interest costs. Taking these two variables into account the net profit will increase with €215.000 to over €725.000.

To make this merger a successful one and to create as much value as possible, on some integration aspects recommendations are given. The first recommendation is about the integration process: Three elements are essential for a successful merger and good performances: 1) Having an initial view of the integration approach that corresponds to the integration setting, 2) being able to adjust one's initial view of the integration approach to be followed, and 3) the organization's ability to deliver on the intended approach. The second recommendation regards the feeling toward each other: in order to ensure a smooth integration, the communication must be good. This will make sure that everyone will be convinced of the importance of the merger. The third recommendation regards an optimal spread of the locations, a good financial health and not to have under capacity on the locations. When these three aspects are under control, it will be hard for competitors to enter the service area of the merged organization. Fourth, the middle management must be adjusted. On large locations a location manager is appointed, on the smaller locations they will work in self managing

teams. Last the opening hours should be broadened in the Salland area. At the same time the prices of the services should be leveled, by lowering the prices in the Twente area. The earnings lost by the decrease in price per hour are compensated by the longer opening hours.

The results of the analysis show that, in the case of SKWT and KOOS, there is a high need for strategic interdependency and a moderate to high need for organizational autonomy. Although all three types of capability transfer and combination benefits will create value in this case, the most dominant one is operational resource sharing. This type of capability transfer creates a large part of the added financial value for the merged organization.

It can be concluded that the best integration approach for the merger between SKWT and KOOS is a symbiosis. In practice this means that after the legal merger, the two organizations will integrate gradually. At the end of this gradual path the two former organizations will be integrated entirely.

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1. Introduction

The Dutch childcare market is a dynamic and fast changing market that roughly can be divided into three groups. The first group are the (inter)national players like Catalpa and SKON, the second are the regional players like SKWT and KOOS, the organizations of this case, and the third and last group are the local childcare organizations. The local competitors have typically one location where they facilitate childcare. This group represents over 50% of the total childcare organizations in the Netherlands, and have a total market share of just over 10%. The regional childcare organizations, with 2 to 20 locations per organization, represent almost 44% of all childcare organizations and have a total market share of almost 47%. The last group, the (inter)national childcare organizations with over 20 locations (up to 180), represent only 4.3% of the organizations, but have a total market share of 43% (Paulussen-Hoogeboom & Dekker, 2010). A trend can be found in the merger and acquisition activities of the regional and (inter)national players. Regional players typically takeover 'one location organizations' to expend and grow. Usually the organization that is taken over is located in the service area of the acquiring organization. The (inter)national childcare organizations take over a lot of smaller childcare organizations, both local and regional childcare organizations. These takeovers are usually not bounded by geographical borders.

'Stichting Kinderopvang West Twente' (now: SKWT) located in Nijverdal and 'Kinderopvang KOOS' (now: KOOS) located in Raalte are examples of two regional players in the childcare industry. They have 18 and 17 locations respectively, which are spread in and around there respective 'home towns'. Being a regional player, both organizations can feel the pressure of the acquisition aspirations of larger regional and national competitors. Especially the pressure on SKWT of 'Stichting Kinderopvang Enschede' (now: SKE), a competitor based in Enschede, is felt. Thereby both SKWT and KOOS have, in their own service area, competition of one location of one of the larger (inter)national players Catalpa and SKON (Stichting Kinderopvang Nederland). In order to withstand to these threats SKWT and KOOS search for several possibilities. A merger with one another is one of the possibilities that is investigated and the subject of this research.

1.1. Research objective and questions

In this research the research question reads:

H1: "What are the best conditions for merging SKWT and KOOS in order to remain jointly an independent organization?"

In order to prevent to be a potential acquisition target for childcare organizations on an acquisition streak, childcare organizations need 'critical mass', a certain size and a certain financial position. Merging SKWT and KOOS will create a larger organization and the financial position will also improve. This thesis gives advice on how to do so in the best possible way.

The main goal of this potential merger is to create critical mass. But it should also create more value than SKWT and KOOS separately did. Because if no value is created by merging, the two organizations can just as well stay independent of each other. Value is created through the integration of two firms, but it is critical to find the proper integration approach (Haspeslagh & Jemison, 1991). Two dimensions help to find the correct integration approach: need for strategic interdependence, and the need for organizational autonomy. The sub questions relate to these two dimensions of Haspeslagh and Jemison (1991):

Q1 What is the need for strategic interdependence of the merger between SKWT and KOOS?

The strategic interdependence need relates to the transfer of resources and capabilities. There are four kind of capability transfers possible, and the one chosen to be most dominant determines the need for strategic interdependence.

Q1a Which form of capability transfer is most dominant within the merger of SKWT and KOOS?

Q2 To which extent does the merged organization need organizational autonomy in order to preserve strategic capabilities?

Organizational autonomy is needed when certain capabilities need to be preserved. When this autonomy is not granted, you might lose essential capabilities, capabilities that are the primary reason for the merger.

Q2a How much organizational autonomy is needed?

Q2b In which specific areas of the organization is organizational autonomy needed?

Both organizations are described in the analyses, but to get a overview of SKWT and KOOS, a data list for both organizations is presented in appendix 1 and 2.

2. Theoretical framework

This research is concerned with finding the most suitable post-acquisition integration model using pre-acquisition analysis. In this literature review pre- and post-acquisition theories are being examined. The most suitable theories for this research will be used as basis for the analysis in this thesis. Considering the fact that SKWT and KOOS are both foundations, and thus non-profit organizations, some theories about the differences and similarities between non-profit and profit merger are also examined.

The merger success is not only determined by the content of the merger decision document, but mostly by the process and the management of this process towards the potential added value. (Bultsma, 2004, p. VIII). The process can be described as the way from the first thoughts about a merger to the moment all the goals of the mergers are accomplished. From idea, via the decision process and the integration process, to finally the results (Haspeslagh & Jemison, 1991). This process perspective is widely adopted by researchers, but three other perspectives can also be distinguished (Brinkinshaw, Bresman, & Hakanson, 2000). The first is the economic point of view, which focuses on the economical impact of the merger on a societal level. With societal level the shareholders are meant. Where SKWT and KOOS both have no shareholders this perspective is not useful for this research. The second perspective which is common in research regarding M&A's is the strategic management perspective. The objectives of the M&A's always have something to do with the performance of the acquiring and acquired organization, so argues the strategic school of thought. This strand argues that superior performance is accomplished due to economies of scale, scope, and market power. More recent studies show that those arguments are ambiguous and that other organizational and structural variables are determinants of the M&A's success (Brinkinshaw, Bresman, & Hakanson, 2000). The lack of focus on other value creators than synergies makes this concept too narrow to use for this thesis. The third perspective regards the organizational behavior in a merger. It focuses on the human side of M&A's, which is according to this school of thought neglected by the other perspectives. The main points in this perspective are that coherent cultures will facilitate employee satisfaction, which in turn leads to a more effective integration. Because this perspective's focus lies solely on the human side of the integration, it is not useful to use this perspective. The final perspective is thus the process perspective. This perspective focuses on the action taking by the management. Not only in the pre-acquisitions process, but also in the post-acquisition (integration) process. "Strategic and organizational fit offer the potential for synergies, but their realization depends entirely on the ability of management to manage the post-acquisition process in an effective manner" (Brinkinshaw, Bresman, & Hakanson, 2000, p. 398). The fact that it is considering all steps of the acquisition process makes this the best view to use as the main perspective in this research.

2.1. Non-profit

SKWT and KOOS are both foundations and thus can be considered to be in the non-profit sector. Therefore it is not possible for either one of them to buy a majority in the other. Because this is always the case with non-profit organizations, one speaks of mergers, and not acquisitions, in this setting (Bultsma, 2004). According to Piana and Hayes (2005), two non-profit organizations have equal participation in the merger, even when they differ in size measured in budget, geographical scope, staff and number of customers served. This is not true, because two different organizational can never be equal. The organization that brings in the most value is likely to have a bigger influence

in the merged organization as a compensation for their value input. This may be reflected in the distribution of seats in the Supervisory Board.

Mergers in the non-profit sector do not differ that much from M&A in the profit sector, but there are some characteristics that differentiate non-profit mergers from M&A's in the profit sector: the role of the funding bodies, many actors are involved, the open character of the merger, idealistic beliefs can play a role, and the hard to quantify advantages of the merger (Bultsma, 2004). For the merger between SKWT and KOOS the second, third and the last characteristic are applicable. The funding body, in this case the government, does not play a big role in the merger motives of SKWT and KOOS, because the merger motive is not to overcome fragmentation of grants. SKWT and KOOS both have no idealistic basis; therefore this will not play a role in the possible merger. Where non- and for-profit organizations have many stakeholders, for-profit organizations are generally concerned about their shareholders, non-profit organizations do not have shareholders and are thus concerned about their other stakeholders. For both type of organizations, profit as well as non-profit, counts that all these stakeholders must be kept involved in the merger process and the value created by the merger (Piana & Hayes, 2005). The goal of the merger between two non-profit organizations should be to better advance their joined mission than they are able to do separately (Piana & Hayes, 2005). This does not have to be the same mission that the former organizations had. "Other gains – such as reduced overhead, access to resources, or greater scale – should be considered in terms of how they enable the organization to further its mission. All such rewards of the merger should be communicated frequently and consistently in order to help individuals understand and 'own' its value and benefits" (Piana & Hayes, 2005, p. 12). The officers who must carry out the merger in the non-profit organizations behave in the same manner as entrepreneurs who carry out mergers. But usually the non-profit officers have fewer skills than the entrepreneurs have (Bultsma, 2004). Also board members play an important role in the merger. Corporate managers who serve in the supervisory board and have merger experience can be useful in a non-profit merger (Piana & Hayes, 2005).

2.2. Pre-acquisition

A merger typically starts with an idea, or an opportunity (Haspeslagh & Jemison, 1991). Behind this idea or opportunity a motive can be found. Many different motives for M&A's can be proposed," including increasing shareholders wealth, creating more opportunities for managers, fostering organizational legitimacy, and responding to pressures from the acquisition service industry" (Jemison & Sitkin, 1986, p. 145). Also buying knowledge, sparking innovation and gain unique resources are motives for M&A's (Chua & Goh, 2009). Bower (2001) suggests 5 merger motives: to deal with overcapacity, to deal with geographical fragmentation, to extend into new products or markets, as a substitute for R&D, and industry convergence. All these motives are captured in one of the 7 theories Trautwein (1990) derives from the existing body of literature. Despite this multitude of motives, this research relates most to the motive for non-profit organizations described by Piana and Hayes (2005): Non-profit merger motives are usually driven by the desire to advance their mission. SKWT and KOOS both have the goal to provide expert and high quality childcare. Also the geographical roll-up merger described by Bower (2001) is applicable in this research.

As soon as the idea for a merger has arisen, the first meetings will take place. In this exploration phase the advantages of a possible merger are discussed (Bultsma, 2004). In this phase the intention

to further research the merger possibilities are expressed to one another. The goal of the pre-acquisition process is to reach agreement about the goals of the merger and how to achieve these goals. This is also called the negotiation phase (Piana & Hayes, 2005), or the acquisition decision process (Haspeslagh & Jemison, 1991). In order to reach a good decision whether to merge and how to merge a due diligence must be performed, leading to the final acquisition justification. According to Haspeslagh and Jemison (1991) the acquisition justification document must meet the following quality demands: It must contain a detailed strategic assessment, the purpose of the merger must be widely shared, detailed sources of benefits and risks, regard for organizational conditions, timing of the implementation, and the maximum price.

Also part of the pre-acquisition analysis is a pre-acquisition analysis of the strategic fit, and a pre-acquisition analysis of the organizational fit (Jemison & Sitkin, 1986). In order to increase the chance of a successful merger, the two organizations must have a certain 'fit'. Whether the two organizations have a 'fit', must be researched. When the strategic fit is optimal it yields more synergies and makes the transferring of core skills easier (Datta, 1991). "The strategic fit is the degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and non-financial goals of the parent" (Jemison & Sitkin, 1986, p. 146). The strategic fit analysis is divided into five sub-analyses: market analysis, industry analysis, customer analysis, product analysis and a financial analysis (Jemison & Sitkin, 1986). "While relatedness indicates that potential synergistic benefits may be present, it will result in superior acquisition performance only if synergies can eventually be realized through effective post-acquisition integration" (Datta, 1991, p. 283). These potential benefits can only be exploited when there is a certain fit on an organizational level. The organizational fit, "the match between administrative practices, cultural practices and personnel characteristics between the target and parent firm" (Jemison & Sitkin, 1986, p. 147), can directly affect the integration with respect to day-to-day operations. Compared to the characteristics that Jemison and Sitkin (1986) refer to in their theory, Datta's (1991) theory is more explicit and detailed about organizational characteristics. Therefore the characteristics of an organizational fit that are used in this research are: cultural practices, management styles, reward and evaluation systems, and organizational structure (Datta, 1991). The importance of a good fit is further underlined in the theory of Douma et al (2000), which states that a good fit between the partners involved is crucial for attaining a successful alliance. "Partners must be well aware of the fact that an insufficient fit in any one area will have a significant negative impact on the alliance process" (Douma, Bilderbeek, Idenburg, & Looise, 2000, p. 595).

How optimal this fit is must be researched. For the strategic fit this is a straight forward analysis of, mostly, quantifiable and standardized measures. But for the organizational fit this is a more difficult, because "issues of organizational fit or more abstract strategic considerations are less clear cut" (Haspeslagh & Jemison, 1991, p. 60) Especially the fit for culture is hard to define. The theory of Haspeslagh and Jemison (1991) describe that first the value of the cultures should be assessed. When the culture is important in keeping capabilities, the culture must be preserved. If this is not the case, the cultures should integrate. In order to assess which culture is present in an organization and how well this fits with the other organizational culture is described in the theory of Cartwright and Cooper (1993). This theory defines four different types of cultures that might be present in an organization. It distinguishes: the power culture, the role culture, the task/achievement culture, and the person/support culture. Each culture has its own characteristics, but none of them is superior to the

other (Cartwright & Cooper, 1993). But in a merger it is important that the two cultures can be integrated. Cartwright and Cooper (1993) found that not every culture type integrates so well with each other. In table 2.1. the model how cultural types integrate with each other is presented.

Culture of the acquirer	Culture of the acquired	Likely outcome
Power	Power	Problematic
Power	Role	All potentially disastrous
	Task	
	Person	
Role	Power	Potentially good
Role	Role	Potentially good
Role	Task	Potentially problematic
Role	Person	All potentially disastrous
Task	Power	Potentially good
	Role	
	Person	

Table 2.1. How cultural types integrate, by Cartwright and Cooper (1993)

Which culture is present at SKWT and KOOS and if they integrate well will be researched in the analysis. The importance of fitting cultures is also described by: “Cultural compatibility will reduce acculturative stress at the individual level, and thus smooth the integration process” (Brinkinshaw, Bresman, & Hakanson, 2000, p. 398).

Problems in the pre-acquisition process

Many theories about M&A's are not only about best practices and advice, but most theories state something about what can go wrong in the process. Some of the important problems in the acquisition process are elaborated in this research because SKWT and KOOS should consider those problems in order to act on them.

A problem that is described in multiple theories is the momentum problem (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). In the negotiation phase the involved managers want to close the deal as fast as possible, this and the buildup of personal commitment, secrecy, and intense concentration can lead to increased momentum (Haspeslagh & Jemison, 1991). This means that the project will go live its own life and may discard the signs and warnings not to proceed with the merger. Also it can lead to premature decisions and solutions, less consideration of integration issues, and most importantly a lower chance for a successful merger (Jemison & Sitkin, 1986). To slow down the process and evaluate where the merger process is, is the best solution against increasing momentum. This can be done by building in internal approval processes, or hiring experienced managers regarding mergers (Haspeslagh & Jemison, 1991). The second problem that might occur in the pre-acquisition phase is called fragmented perspectives. When the specialists of the two organizations assess the merger from their own field of expertise, fragmented perspectives on why and how to integrate occur (Jemison & Sitkin, 1986). This problem can only be solved by communicating well and often about each other's progress. A third problem may arise when the deal is to be made. Not all details are worked out yet, but the deal must be closed. Both parties then agree to proceed with the deal without making arrangements in final detail. Although this helps to fasten the negotiation phase, this may backfire when the actual integration process starts. Both parties have their own idea how to fill in these last details leading to collisions between the parties (Haspeslagh & Jemison, 1991). Therefore it is important to agree on how to integrate before closing

the deal. The fourth problem is similar to the former, only this is about motives and prioritizing. By not making a good agreement about the integration, there might be different ideas why the merger takes place and thus which problem to solve, or which to integrate first. All above described problems, except for the increasing momentum problem, arise when good communication fails. Therefore it is important to keep talking to each other, internally and externally. By solving all the possible problems, the change for a successful merger is increased.

2.3. Post-acquisition

“The integration process is the key to making acquisitions work” (Haspeslagh & Jemison, 1991, p. 105). There are several theories about the integration of two organizations, all using different focal points and using different models to come to the most suitable type of integration. In this research the definitions of integration is as followed: “Integration is an interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities” (Haspeslagh & Jemison, 1991, p. 106). This implies that the potential value created through a merger, can only be created when capabilities are transferred. “More than a simple amalgamation of physical resources, a successful acquisition demands the integration of organizational knowledge from the two previously autonomous business entities so that they can work together as one” (Chua & Goh, 2009, p. 79). Three types of capability can be transferred: operational resource sharing, functional skill transfer, and general management skill transfer. Next to these three types of capabilities transfers every merger results in combination benefits (Haspeslagh & Jemison, 1991). Every type of capability transfer “requires creating and managing interdependencies between both organizations” (Haspeslagh & Jemison, 1991, p. 139). The nature of the interdependency and how managers cope with this interdependency is therefore a key factor in the integration approach. For creating value the boundaries between the two firms have to be disrupted or even removed. The extent of disruption, or removal, of these boundaries is dependent on the type of capability transfer that is most dominant to create value (Haspeslagh & Jemison, 1991). The theory acknowledges the fact that some capabilities might get lost due to the integration of the organizations. In order to counteract on that, some parts need to be granted organizational autonomy (Haspeslagh & Jemison, 1991). This autonomy makes sure that capabilities vulnerable for integration are kept within the merged organization. By both assessing the need for strategic interdependency and the need for organizational autonomy, a most suitable type of integration can be chosen. The following model is presented to choose the most suitable type of integration.

Need for Strategic Interdependency

		Low	High
Need for Organizational Autonomy	High	Preservation	Symbiosis
	Low	[Holding]	Absorption

Figure 2.1. Types of integration, by Haspeslagh and Jemison (1991)

1. High need for interdependency, low need for autonomy: Absorption acquisitions: Because the need for interdependency to create value is high, but has a low need for autonomy to preserve the capabilities, it is best to fully integrate, operations, organization, and culture of both firms. Although this may take time, the goal of this integration approach is to eliminate the boundaries between both organizations completely. This can be hard because of sensitivity to cultural aspects. Too much sensitivity can lead to less value creation. Therefore it is not the question to which extend should we integrate, but which time path to integrate is justifiable. (Haspeslagh & Jemison, 1991)
2. Low need for interdependency, high need for autonomy: Preservation Acquisition: This type of integration approach is used in acquisitions where the need for interdependency is low, and the need for autonomy is high. The preservation of capabilities is the primary goal for this sort of acquisitions. This is done by keeping the boundaries between the firms. Value is created through what Haspeslagh and Jemison (1991) call nurturing. Nurturing bring positive changes to the acquired firm, such as ambition, risk taking and professionalism. Value can also be created by the decrease of costs for raw materials.
3. High need for interdependency, high need for autonomy: Symbiotic acquisitions: The last type of integration approach is called Symbiotic acquisitions. These are applicable when an acquisition calls for “a high need of both strategic interdependence (because substantial capability exchange must take place) and organizational autonomy (because the acquired capabilities need to be preserved in an organizational context that is different from the acquirer’s)” (Haspeslagh & Jemison, 1991). In this approach the two organizations exist next to each other, and when time passes they become more interdependent. In the symbiotic approach boundaries need to be preserved and boundaries must be permeable at the same time. “To succeed in truly amalgamating the organizations symbiotically, each firm must take on the original qualities of the other” (Haspeslagh & Jemison, 1991).
4. Low need for interdependency, low need for autonomy: Holding. No real need for integration. Only financial motives are a reason to merge.

This model is also used in the theory of Brikinshaw, Bresman, and Hakanson (2000) that strive for a simultaneous completion of task integration and completion of human integration. This theory

argues that when both task and human integration is are highly completed, it will result in a successful merger. This is represented in the model which is presented in figure 2.2.

		Level of completion of task integration	
		Low	High
Level of completion of human integration	High	Mixed success satisfied employees but no operational synergies achieved	Successful acquisition
	Low	Failed acquisition	Mixed success operational synergies achieved at expense of employees

Figure 2.2. Impact of task and human integration on acquisition outcome by Brikshaw, Bresman, and Hakanson (2000)

Both integrations must be considered and one cannot be favored over the other in order to make an acquisition successful. “Aspects of human integration, such as enhanced employee satisfaction, are likely to make capability transfer and resource sharing easier; and task integration, in turn, is likely to further the cause of employee satisfaction and a shared identity” (Brinkshaw, Bresman, & Hakanson, 2000, p. 399) When task integration is favored over human integration, the organization bears the risk that employees may lose their motivation and become less productive. Employees may even leave when human integration is not considered enough. If human integration is favored, the merger poses the threat that the expected synergies are not achieved. This model does not offer any insights in how SKWT and KOOS can merge and integrate, and thus cannot be used as the leading model on which this thesis is build.

This literature review found that this research best can use two theories as its basis: the strategic and organizational fit of Jemison and Sitkin (1991), and integration theory of Haspeslagh and Jemison (1991). The former is used to analyze the fit between SKWT and KOOS. From these analyses the need for strategic interdependency and the need for organizational autonomy will become clear. When these needs are revealed, a suggestion about which integration model can best be used can be given.

3. Research methods

This study deals with the merger between SKWT and KOOS. This business problem fulfills the wishes of the researcher and the demands of the University for a master thesis. KOOS and SKWT are foundations offering childcare, and having plans to cooperate with each other. The Manager Finance and Control of SKWT proposed a study to the feasibility of a collaboration. This collaboration could be a simple, informal cooperation, but it was also possible that this collaboration leads to a merger between both parties.

A general study to every form of collaboration seemed too extensive. The research idea must be refined or it would lead to time constraints (Saunders, Lewis, & Thornhill, 2009). In consultation with all stakeholders it was decided that the research must cover the possible merger of SKWT and KOOS and should not look into less formal forms of collaboration. By choosing for the most formal form of collaboration, a merger, all less formalized forms are also considered. When it is concluded that a merger is not suitable in this situation, one can see where the problem lies and use this analysis to find a more suitable form of collaboration.

In order to gain access to the necessary information it was decided that the researcher would work within the two organizations. This leads to physical access (Saunders, Lewis, & Thornhill, 2009). Because the request for the study came from the organizations, they had no problems with granting access to the relevant information. The researcher worked four days a week at SKWT and one day a week at KOOS. This distribution was deliberately chosen, because SKWT had the room to daily accommodate the researcher, while KOOS had no room to accommodate the researcher daily, but only had room on Fridays.

In order to get the information needed for the research, the researcher had to talk and interview employees of the organization. To get reliable information a relation of trust must be established between the researcher and the participants. If this cannot be established, the researcher will not have cognitive access to all information (Saunders, Lewis, & Thornhill, 2009). That the researcher worked on his research at the organizations helped to gain trust. Once a trustful relation was build the researcher had both physical as cognitive access to the necessary information.

3.1. Empirical research

Since only one case is studied during this research (the merger between SKWT and KOOS) this is a single case study (Saunders, Lewis, & Thornhill, 2009). This is supported by Robson (2002, p. 178) who defines a case study as “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”. In order to gain those multiple sources of evidence, this research uses three main data collection methods. These methods will be elaborated further in the next paragraph. By using these multiple methods triangulation is established and this will “ensure that the data is telling you what you think they tell you” (Saunders, Lewis, & Thornhill, 2009, p. 146). Because this is a single case study, the results of this research will be hard to generalize, which lead to a weak external validity (Yin R. , 1992). This study has multiple units of analysis. Not the two organizations as a whole are studied, but the study is concerned with the multiple departments and persons. Therefore this is an embedded case study (Yin R. , 1992).

The purpose of the data gathering is to identify if the various aspects need strategic interdependency and organizational autonomy. Strategic interdependency is defined as: Sharing of heterogeneously distributed strategic resources. The following items are studied on the need for strategic interdependence. For strategic interdependency this is done by considering in which of the four ways value is created: resource sharing, functional skill transfer, management skill transfer and combination benefits (Haspeslagh & Jemison, 1991). If the indicators in the following table are positively influenced by integrating there is a need for strategic interdependency. The value-creation mechanism(s) will determine the degree of strategic interdependence: “Resource sharing and functional skill transfer imply high to moderate strategic interdependence respectively, while combination benefits imply little or no interdependence” (Schoenberg, 2004).

Resources that might be shared	Indicator	Operalization
Knowledge/skills	Quality level	At the legal standard, above the legal standard, far above the legal standard (Number of attendances, budget per child)
	Costs	Costs that might decrease due to sharing of knowledge and skills measured in €.
	Efficiency of administrative practices	Systems used, work methods used
Financial resources	Profitability	The ability to generate the financial resources (Net profit margin, ROA, ROE)
	Liquidity	The ability to meet cash obligations in a timely manner (Current ratio)
	Solvency	The ability to meet long-term debt obligations and how capital assets are being maintained (total debt ratio, interest coverage ratio)
Combination benefits	Market share	% of all customers in an area served by the merged organization
	Buying power	Costs that might decrease due to sharing of knowledge and skills measured in €.
Structural resources	Departments	Which departments and departments size

Table 3.1 Items studied for strategic interdependence

In order to identify the need for organizational autonomy, which is defined as: Self-governing in deciding about value proposition and market segment, three questions are asked for each theme: 1) is autonomy essential to preserve the capabilities, 2) if so, how much autonomy should be granted, 3) in which areas is autonomy needed. This results in the organizational autonomy needed per theme. By adding up, the need for organizational autonomy for the merged organization can be identified. How the various items for organizational autonomy are operationalized is presented in table 3.2.

Items for OA	Operationalization
Embedding in the region	Time spent on meetings etc. with external stakeholders
Customer differences	Behavioral, prosperity
Extent of flexibility	Speed of which an organization can adopt to changes
Level of expertise	Number of employees in the overhead
Personnel characteristics	Age distribution, gender distribution
Cultural differences - Management style - Extent of formality	Management style and extent of formality - Attitude towards risk taking, participation in decision-making, administrative flexibility, and the formality of organizational routines - Number of written documents

Table 3.2 Items studied for organizational autonomy

Interviews

The first technique to gather data for the research are interviews. There are several types of interviews, but this research used semi-structured interviews. Semi-structured interviews are chosen because they fit well with the intentions of the research, which is to gather qualitative data (Saunders, Lewis, & Thornhill, 2009). The purpose of the interviews is to cover multiple subjects relating the research. In order to cover all these subjects a number of themes are conceived in advance. But next to these fixed questions, room is left open for other questions. These questions can relate to the subjects that are prepared in advance, are follow through questions, or can be questions that pop-up during the interview and seems relevant. The choice for semi-structured interviews is a logic one when the purpose of the research is explanatory (Saunders, Lewis, & Thornhill, 2009). The intentions of the interview is to have a normal conversation about the thoughts and opinions of the interviewee about the several subjects. This means that the nature of the questions are open-ended and the order of the subjects to be covered may vary in each interview (Saunders, Lewis, & Thornhill, 2009).

Establishing contact with the interviewees was not a problem, because both organizations are already collaborating and also considering a merger for a longer period of time. Such a merger will affect every person in the organization, thus they are interested in ventilating their opinions about an eventual merger, because the interviewee has more power and control over the event when he/she participates with the interviews, than when they do not (Saunders, Lewis, & Thornhill, 2009). Since the researcher works in both organizations, a sense of trust between the researcher and the interviewees is established. This increases the interviewee's willingness to share sensitive information, opinions, and thoughts in the interview. By developing this trust and credibility the reliability of the research will increase. The interviewee will give more honest answers and will express his/her opinion. A danger hides in the fact that the merger is already discussed widely within both organizations. This can lead to a bias, because the opinion of the interviewee can already be influenced by others, for example their managers. Also the fact that a merger will have effect on the interviewee's job security can form a serious bias. The answers may not reflect what they think is best for the organization, but what is best for their own job. A last bias that may be faced is that the interviewee also expresses an opinion which is not in the interviewee's field of expertise, e.g. the HR manager expresses its opinion about the finance and control department.

The first bias cannot be overcome because the process of influencing each other has already begun. But it is important to be aware of this situation so when an answer is given which might be biased, the interviewer can ask further to obtain the interviewee's own opinion. The second bias is also hard to

overcome. Job security is very important to most employees and this is thus a very real bias. Asking further and directing the questions towards what is best for the organizations reduces this threat. The final bias can be overcome by not asking questions which are not in the field of expertise of the interviewee. When the interviewee still gives his reflection on other departments, the extent to which his answers are correct must be checked by the appropriate department. This has to be done discretely, in order to retain the trust and credibility with all stakeholders.

Observation

In order to get a clear picture of, for example, the culture or the decision making process, of both organizations, an observation technique is very useful. By participating in the organizations the researcher cannot only observe the persons within the organization, but can also feel what is happening (Saunders, Lewis, & Thornhill, 2009). This technique is called participant observation and leads to the gathering of qualitative data.

There are four different roles that the researcher can attain. In this research the most appropriate is the observer as participant, because the researcher identity is revealed and the researcher only observes activities instead of taken part in these activities. This means that the employees in the organization know that the researcher is a researcher, and the researcher does not participate in the activities of the organization (Saunders, Lewis, & Thornhill, 2009). In practice this means that the researcher is conducting his research in the organization, he becomes part of the organization, but is only concerned with his research and does not do any work for the organization.

There are three main types of data collection within the observation technique: primary observation, secondary observation, and experiential data. All three methods are used in this research. By primary observation is meant that the researcher observes a situation himself. In secondary observation a third party observed the situation and tells the researcher and experiential data "are those data on your perceptions and feelings as you experience the process you are researching" (Saunders, Lewis, & Thornhill, 2009).

Data collection through the technique of observation is threatened by most validity threats. These can be overcome by the fact that the research is over a longer period of time. Also the reliability is in question, mainly because the researcher is part of the organization. Due to this fact the researcher might be influenced and thus be biased. Finally, the danger of interpretation can pose a threat. Because the researcher only observes, he cannot ask questions what the subject really meant with his statements. This can be overcome by using not only observers' techniques to collect data, but also other techniques. E.g.: If the researcher also uses interviews he can ask what was meant by several statements and can find out the underlying reasons for the subjects statements.

Document analysis

As a final source of evidence documents were reviewed and analyzed. Investigated documents are agendas, administrative documents, strategic plans, annual reports, policy documents, and advisory reports. The document analysis served as an instrument to corroborate the data from the interviews and observation. This creates triangulation and increases the validity of the conclusions of the research. The researcher must keep in mind that this kind of data is not always the truth just because it is written down. Documents are a communication between different parties and serve a goal. Mistaking about the fact that documents always reflect the truth or reality may lead to a bias (Yin R. ,

1992). Next to this a document analysis may also be influenced by a biased selectivity, and a reporting bias. The former means that the researcher might select the wrong documents to analyze, which leads to false data. The latter is concerned with the fact that the documents reflect the authors thinking, which does not mean that this way of thinking is generally accepted throughout the company.

A document analysis is useful for creating triangulation because it is 'stable', every time you need to consult the documents they remain consistent in their information. There is no maturation threat, which is an advantage compared to other data sources that are not as consistent and may suffer of the maturation threat. Another advantage is that (most) documents are made prior to the research, and thus do not suffer testing threats. A documentary analysis also has the possibility to analyze a large time and subject span. This means that for example, people who left the organization can still be represented in the data. Past events can still be reviewed in detail, while a interviewee might not remember every detail of that event.

With the use of the three data collection methods this research will increase the validity and reliability of its results.

4. Analysis

The goal of the merger is to create a larger organization, and a better financial health than SKWT and KOOS separately, so that the merged organization can better stand up against competitors. To ensure the continuity as an independent organization, the merger must be successful. A merger is most likely to be successful when a correct integration strategy is chosen (Haspeslagh & Jemison, 1991). A merger is successful when it is more valuable than the two former organizations separately. Value can be created through the transfer of capabilities. “Such capability transfer requires creating and managing interdependencies between both organizations” (Haspeslagh & Jemison, 1991, p. 139). At the same time the capabilities present in an organization may not get lost due to the interdependency. Therefore some pieces of the new merger need organizational autonomy. When the potential value is found an integration strategy must be chosen. With the correct integration strategy the potential value is more likely to be created, making the merger successful. In the case of SKWT and KOOS the most dominant form of capability transfer is operational resource sharing which makes the need for strategic interdependence high and is the need for organizational autonomy moderate to high.

With a high need for strategic interdependency and a moderate to high need for organizational autonomy the best model for the post merger integration is symbiosis. In this approach the two organizations exist next to each other, and when time passes they become more interdependent. They grow slowly towards each other to finally become one. Because this process is gradually and slow, all employees of both organization can get used to the idea of becoming one entity. This makes the last step of the merger smoother and easier, resulting in a better change for a successful merger.

In order to find the need for strategic interdependency and the need for organizational autonomy, and thus the most appropriate post merger integration approach, the theory of Jemison and Sitkin (1986) is used. This theory uses two main points to analyze the potential fit between two firms: the strategic fit and the organizational fit. This allowed the researcher to analyze the data in a structured and consistence way without forgetting important parts of the merger.

4.1. Strategic fit

Within the strategic fit, the following analyses have to be done to find the need for strategic interdependency and organizational autonomy: industry, market, product, customer and a financial analysis (Jemison & Sitkin, 1986).

Industry

The Dutch childcare industry is a growing industry, which can be partly explained by the incentives offered by the government. These incentives are presented to stimulate parents to work more, which is good for the economy. The industry is characterized by 3 types of organizations: the small, the medium, and the large childcare organizations. The small childcare organizations are typically organizations with one to five locations (where they provide childcare services) and have a strong local focus. The childcare organizations that have five to 20 locations are medium size childcare organizations and focus on offering childcare in one specific region. The final group are the (inter)national childcare organizations. These organizations operate in the Netherlands, and some of them are driven by foreign capital. They do not focus on a specific area, but they have locations all over the Netherlands and typically have more than 20 locations. The size of the industry becomes

evident of the numbers: there are 2650 organizations that offer childcare on more than 9785 locations. In total these locations provide 352.455 child places and generate a total revenue over 3 billion Euros (Paulussen-Hoogbeem & Dekker, 2010). In the following table the deviation of the industry is presented.

Type of organization	Local	Regional	Interregional/ (Inter)national
Number of organizations	85,1%	10,8%	4,1%
Market share in child places	30,8%	26,2%	43,0%

Table 4.1 Deviation of the Dutch childcare industry

SKWT and KOOS now are both medium sized, regional organizations, because they have 18 and 17 locations respectively. The merged organization between the two will have 35 locations and thus falls in the group of large childcare organizations. The merged organization's operations will also be interregional, because the merged organization will serve a part of Twente and a part of Salland.

Market

The market that will be served by the merged organization will stretch from west Twente to Salland and include the municipalities Hellendoorn, Wierden, Rijssen-Holten, Raalte, and Olst-Wijhe. The total capacity of all childcare organizations in these municipalities, measured in child places, is 2028 (Netwerkbureau Kinderopvang). The merged organization will provide over 1100 of the child places in these municipalities. The other 900 child places are divided over more than 20 different childcare organizations. It can be concluded that the merged organization will have a strong market position, i.e. 54,4%. Because SKWT and KOOS currently have a similar market position in their respective markets, the strategy and vision on this aspect can be integrated easily.

Looking at the competition faced by the merged organization, it stand outs that there are no competitors in its service area that have more than 5 locations. Most of the competitors (for a complete list of all competitors see appendix 4) have a single location. Therefore, most of them do not form a direct danger to the merged organization, in the sense that they will not try to take over the merged organization. But some locations are owned by (inter)national childcare organizations. These are the 'De Blauwe Walrus' in Wierden, which is owned by SKON, and Kakelbont which is owned by Catalpa and is located in Holten. These two organizations form a real threat in the independent survival of the merged organization. When an opportunity arises in a certain area for Catalpa/SKON, they will try to infiltrate in that area. An area can be interesting in several ways: 1) The current capacity does not meet the demand, or 2) the spread of the locations is not optimal, or 3) the childcare organizations already active in that area are financially weak, which makes them an easy prey to take over. By taking over smaller organizations, the (inter)national childcare organizations can expand their business and create more value for their shareholders (Catalpa).

In order to withstand these threats the merged organization must offer enough capacity to meet the demand and spread their locations in the most optimal way. To reach an optimal spread, locations can best be placed nearby sites where children spent their time e.g. preliminary schools and sport clubs, or where parents work, so that parents can combine bringing and/or picking up their children with their daily activities better. A high need for autonomy is called for because all locations should

be remained and cannot be physically integrated. Because when locations are closed, the merged organization poses the risk of not having an optimal spread and thus the danger of a competitor entering their service area.

Competitors that are not directly in the merged organization's service area, but do operate in Overijssel and might pose a threat to the independent survival of the merged organization are: SKE and Allio. SKE, or 'Stichting Kinderopvang Enschede', offers childcare in and around Enschede. In total they have 60 locations and over 2200 child places. They build their business mostly by takeovers of small and medium sized childcare organizations. Because they have this particular growth strategy, the merged organization should take them into account as a serious threat to their independent continuity.

Childcare organization Allio started in 2010 and was 'born' from a merger between 't Ukkie' and 'Kasteel Kiekeboe'. They provide childcare in the region between Arnhem and Zwolle in one of their 110 locations. They are a member of 'Kinderopvang Nederland', which is an organization with a multilabel-strategy. 'Kinderopvang Nederland' strives to be a leading organization in the Dutch childcare market. With over 400 locations spread over the Netherlands, revenue of €185 million and a growth strategy that is pointed towards mergers and acquisitions they also form a real threat to the independent survival of the merged organization.

To resist these threats from the market the merged organization should maintain a healthy and strong financial position. By integrating, the financial position, related to the current financial position of SKWT and KOOS, will be stronger. This is supported by Haspeslagh and Jemison (1991) who argue that each merger will profit from combination benefits. Also by combining and integrating the two central offices of SKWT and KOOS (operational resource sharing), the financial position becomes stronger. This will be elaborated on when the administrative practices are analyzed.

In the childcare market some trends that occur now and in the coming years, influence the merged organization's integration strategy. Although the Dutch childcare industry still copes with under capacity, it is expected that the demand will stagnate and the capacity will grow. This is due to the announcement of the government that they will cut the budget available for the childcare industry. This means that the costs for parents will increase, which leads to a decrease in demand. Because the childcare market is an easy accessible market, more competitors will enter. Also schools see advantages to create their own childcare centers. These schools already have the facilities, like buildings and toys, to facilitate childcare. The schools become potential new entrants in the childcare market. Only good partnerships between schools and childcare organizations might keep schools out of the childcare market. Due to the increase of competitors the supply will rise. These trends will cause the supply and demand to balance. Because the past couple of years the childcare market was growing, this is a new situation for the merged organization on which they should anticipate. This can be done by ensuring a good financial health but also to make sure that the merged organization remains flexible.

In order to obtain a good market position the merged organization must integrate the central offices of SKWT and KOOS, which improves the financial health. This is operational resource sharing and asks for a high degree of strategic interdependence. The need for organizational autonomy is also high, because of the locations.

Product

In the childcare industry two main types of childcare services are known: centre-based childcare, and family-based childcare. Within the centre-based childcare service three specific services can be distinguished: preschool childcare (peuterspeelzaal, PSZ), whole daycare (kinderdagverblijf, KDV) and afterschool childcare (buitenschoolse opvang, BSO). The products PSZ and KDV both target the youngest group of children: from age 0 to age 4. Four is the age on which an infant reaches his school age. The difference between PSZ and KDV can be found in the reason why the childcare is offered. The PSZ's goal is to offer pre-education to toddlers, while KDV is directed to accommodate children so that the parents can work. Consequently, KDV is a service that is offered from 7.00 till 18.00, while a child can only attend the PSZ for 3 hours a day. The BSO has the same goals as KDV, but targets older children: from age 4 to age 13. This is the age in which children attend primary school. The children are picked up at their schools and jointly brought to the childcare centre. The parents pick their children up after they are done working. The second main type of childcare service is family-based childcare. This is for children from age 0 till age 13. The children are accommodated in the house of the 'guest parent'. The goal is to accommodate the children while the parents are working, but in a setting that is similar to the children's home situation.

SKWT offers two types of childcare services: KDV and BSO. SKWT also ran a mediation agency for guest parents (a 'GOB'), but due to the little number of links SKWT handled, they decided to stop the mediation agency. The cause for the little number of links is the competition of other guest parent bureaus. In the municipality Hellendoorn, where SKWT is situated, there are two other mediation agencies: 'Obelix' and 'Gastouderbureau Oost Nederland'. From September 1, 2010 all activities of the SKWT's mediation agency are officially terminated. The clients as well as the guest parents are transferred to other mediation agencies.

KOOS is offering the same childcare services as SKWT, but their mediation office is still running. In Raalte, where KOOS is situated, there are no other mediation agencies. In Heino, a municipality that lies in KOOS' service area, one mediation agency is active: 4Kids. In addition, both SKWT and KOOS offer pre-school childcare service (voorschoolse opvang, VSO).

Because SKWT and KOOS offer similar products, their products are further investigated. The price setting of both organizations and the quality level of the services that the organizations offer are compared. The prices comparison is presented in the following table, in this table the prices of the competitors are also presented.

	SKWT	KOOS	SKE	Catalpa Holten
KDV	€72,05	€68,53	€68,88	€69,40
BSO (after school till 18:00)	€20,75	€19,05	€21,63	€23,40
VSO	€10,38	€9,15	€7,21	Not possible

Table 4.2 Prices of products for SKWT and KOOS (rate per day)

As showed in the table the whole range of services is more expensive at SKWT than at KOOS. This is mostly, because at SKWT the minimum purchase is larger (11 hours a day against a rate per hour of €6,36 at SKWT and 10,55 hours a day against a rate per hour of €6,50). This principle is the same for the BSO. For one year, one day per week KDV SKWT charges €3746,60, while KOOS charges

€3563,63. This is a difference of €183 per year. SKWT does have broader opening times than KOOS, but these extra hours are mostly when the children are at school (14:30 and 15:00) or early in the morning (07:00 and 07:15)

In understanding the current price differences, the level of quality is also investigated. Both organizations offer childcare in vertical groups. The purpose of working with vertical groups is that the children have an own group which has, most of the time, the same composition. Also each group has their own childcare attendances, so the children do not have another childcare attendance each day. This is enhancing the offered quality. KOOS offers a special program called KOOS KLEUR. For the program extra funds are available in order to enhance the quality of the care. This can be spent on extra childcare attendances, special activities, or toys for the children. At SKWT a 'combination officer' is employed to stimulate exercising and sporting among the children. The officer teaches the childcare attendances how to stimulate the children to do so and also organize events and activities that have something to do with physical exercise. This can be a sport event or a trip to a professional soccer club. SKWT and KOOS both employ a higher child-childcare attendance ratio than required by law and regulations, which show that they both have a high quality standard.

Integrating the services will affect the quality of the service positively. Both organizations advocate and implement higher quality standards than required by law. The integration will even increase the quality and thus create value for the merged organization. Both organizations currently have different approaches to maintain a high quality level, when integrating the services these additional quality boosts can complement each other. Because the services of both organizations are so similar to each other, integrating the services will not pose any problems. The difference of prices between the current organizations must be equalized in the merged organization. This can be done in three ways: 1) The merged organization can set their prices to the current price level of KOOS, 2) the merged organization can set the prices to the current price level of SKWT, or 3) the merged organization sets their prices somewhere in the middle of the two current price levels. Keeping two different price levels is not an option, because this will be perceived as unfair by a group of customers, i.e. the group who has to pay more. Option two will not be appreciated by the customers who are now with KOOS. The third option also deals with this, only with a smaller effect. The revenue will stay at the same level, because the loss of revenue in Twente will be balanced by the increase of revenue of Salland. Option one might pose a threat for financial health of the merged organization, because the revenue will decrease and might not cover all the operating costs. But when option one is chosen, the merged organization can decide to extend the opening hours of the locations in Salland. This will lead to a increase in revenue, which will balance the revenue loss in the Twente area. Although the customers of the Salland locations have to pay more, they will get an extra service in return. This will bring extra costs for the merged organization: the attendances must be paid for the extra hours: 30 minutes a day. Because option one leads to the least loss of profit, and because the customers that have to pay more will get an extra service, this is the best solution.

Because the VSO, BSO and KDV products are so similar and complementary to each other there is no need for organizational autonomy in this part of the merged organization. On the other hand, the KOOS' GOB (the mediation office for guest parents) should be granted organizational autonomy. This should be granted, because this GOB will only operate in the Raalte area, there where are few competitors. The integration of the products will lead to knowledge and skill exchange, which

eventually will lead to value creation. The dominant capability transfer is thus functional skill transfer.

Customers

The customers, or clients as they are called in the childcare industry, are not the children who attend the KDV or BSO, but the parents of those children. Because the clients are so important they are formally represented in the organization. Every location has a board of parents, who represent every parent of every child in that location. They have an advisory role towards the location's management. A few of these board members are also committed in the central board of parents. This board represents every parent who is a client at the childcare organization. They advise the director of the organization within the meetings held every year. Finally the central board of parents is entitled to nominate an independent person (no parent) who represents the parents in the supervisory board.

Although no official research has been conducted, there are some differences between the customers in the region Nijverdal and the region Raalte. According to several interviewees, the difference between the customers, which might be caused by the historical background of both regions, is set in the mentality of the people. The interviewees in both regions say that the people in Twente are more determined and fast acting, while the people in Salland are quieter and have fewer britches. That Twente has always been more industrialized versus Salland that has always been more agrarian is the mostly heard cause in the interviews.

The difference between the two 'groups' of customers, will not pose a problem with the integration. Except for a few parents who are in the central board of parents and thus must work together, the parents have nothing to do with each other. Also because the operational work and quality standards of the new merger will remain the same, parents will not object to the merger at these points. The only thing which the parents might object against is the change in cost of their childcare. This is already discussed in the section 'products'.

The added value of the integration is found in the central boards of parents. Instead of two central boards of parents with each six meeting annually, one central board of parents will be formed. This means fewer meetings for directors to attend and thus a saving on costs. Thus there is a need for interdependence. Because the parents of both regions will be represented by one central board, there is no need to keep two boards of parents and thus no need for organizational autonomy.

Financial analysis

The financial analysis is conducted with the help of a ratio analysis (Ross, Westerfield, Jaffe, & Jordan, 2009). In this ratio analysis five categories can be divided: liquidity, solvency, asset management, profitability, and market value. Because SKWT and KOOS are both foundations, and the merged organization is also likely to be one, the market value ratios are not applicable. For each of these groups a number of ratios are analyzed. Those ratios and the revenue, operational costs, EBIT and profit are presented in table 4.3.

Ratio	SKWT 2010	KOOS 2010	Accumulated	After the integration (estimation)
Revenue	7 128 989	5 653 561	12 782 550	12 782 550
Operational costs	6 601 522	5 329 387	11 930 909	11 750 000
EBIT	527 467	324 174	851 641	1 032 550
EBT	337 000	324 174	660 641	954 550
Profit	272 978	252 908	510 641	725 913
Liquidity				
- Current ratio	0.80	3.22	1.79	1.79
Profitability				
- Net profit margin	3,82%	4,47%	4,11%	5,25%
- ROA	4,86%	8,10%		8,67%
- ROE	21,19%	9,81%		15,61%
Solvency				
- Total debt ratio	0.77	0.17	0.51	0.44
- Interest coverage ratio	2.76	n/a	4.47	6,83
Asset management				
- Average collection period	3,46 days	3,58 days	3.52 days	3,52 days
- Total asset turnover	1.27	1.81	1.46	12 782 550

Table 4.3 Ratio analysis

The accumulated revenue is over 12.5 million Euros; it is likely that the merged organization's revenue will also exceed the 12.5 million Euros. Every form of integration will not affect the revenue. The revenue will only drop when the merged organization decides to follow the pricing strategy of KOOS for the entire merger.

The staffing costs are the largest costs of a childcare organization. The accumulated staffing costs are estimated to represent 71% of all costs. When integrating, this number will decrease substantially, leading to a decrease of operational costs. Also other costs will decrease when the merged organization starts integrating the two former entities. Housing costs, especially those of the central offices, will decrease, as will the care taking costs due to the increased buying power. When the entities are entirely integrated the operating costs can decrease to under 11 750 000 Euros. This difference with the accumulated operating costs will directly affect the EBIT.

The net profit margin of the merged organization will be around 4%, which in this industry, where profit margins are low (Buitenhok, 2009), is respectable. The merged organization should take into account the capital structure of both entities. SKWT has chosen to buy, and thus own, many properties, where KOOS has chosen for renting their locations. When integrating the two organizations, this does not have to be a problem, because the merged organization can own part of their locations, while renting the other part of the locations. An added advantage is that this also spreads the risk, which is good. Due to the difference in capital structure the ROA and ROE are far apart. SKWT needed mortgages in order to buy the properties, KOOS did not. These mortgages will also affect the merged organization's debt ratio. The total debt ratios will be 0.51. This means that €0.51 in debt for every €1 in assets (Ross, Westerfield, Jaffe, & Jordan, 2009). The result of a higher

debt ratio is that the interest cost will increase. This has a direct effect on the earnings before tax and thus the net profit.

The liquidity of SKWT is weak, with a current ratio of 0.80 they have to loan money in order to pay their short term liabilities. KOOS on the other hand, has no problems with their liquidity with a current ratio of 3.22. The current ratio of the merged organization will be 1.79, which is a healthy current ratio and means that the merged organization will have no liquidity problems.

The asset management will not pose problems for the merged organization. The figures for both organizations now are so similar to the figures the merged organization will have that no problems are expected.

There is a high need for strategic interdependence concerning the finance of the merged organization. When integrating, the high cash position of the merged organization, 2,2 million, can be used to pay off the most expensive long term debts, which will result in a decrease of interest costs of €112.000. The interest costs then are €78.000 instead of €190.000. This decrease in interest cost, will positively affect the profit. The profit without integrating is €510.000, but when integrated the profit is over €725.000. That is an improvement of over €215.000. On the other hand there is little need for organizational autonomy regarding the financial aspect of the merged organization.

4.2. Organizational fit

The analysis of the organizational fit focuses on three main points: administrative practices, cultural practices and personnel characteristics (Jemison & Sitkin, 1986). Within the administrative practices the structure of the merged organization is also discussed, because the type of structure influences the administrative practices and vice versa.

Administrative practices

As said above how the structure of an organization is build influences the administrative practices. How the merged organization is structured depends on several things: mandatory administrative bodies, use and structure of different departments and thus administrative practices.

Self managing teams vs. location managers

As already seen in the market analysis, the locations should all remain as they are. But the locations will notice the changes in the top of the organizations. The most important challenge that the locations might face are the changes in administrative practices. The merged organization has three possibilities to choose from regarding the management of the locations. The first possibility is the one currently exploited by KOOS. KOOS has three cluster managers who each are responsible for a number of locations. These locations are geographically divided. Every team on a location is a self managing team. To make sure that everybody is participating in this process, team members are assigned certain tasks over which they have responsibility. Their vision that motivates this choice is that employees will be more involved with the organization when they have a higher amount of responsibility. This involvement is important to KOOS because, they believe that their employees then have a greater drive and more fun to work. These employees are the 'face of the organization' and are in direct contact with the customers of KOOS, the parents.

The second possibility for managing the locations is the use of location managers. SKWT is currently working with this structure. Every 3 or 4 locations have one location manager. This location manager

is responsible for the 3 or 4 location teams. The location managers are controlled by one sector manager. Few years ago, SKWT also used the model that KOOS is using. But in their experience the model with self managing teams is only effective when the teams are small. When the number of team members became too high, they found that some team members retreat from their responsibilities. This forced the other team members into more work, leading to a decrease, instead of increase, of the motivation of the employees.

The merged organization can also use both management styles at their locations. The size of the location team is the benchmark in the decision which management style to choose. Some locations are managed by self managing teams and others are managed by a location manager. Are the teams too big for a self managing model a location manager is assigned. What KOOS and SKWT respectively call their cluster manager and their sector manager are both middle managers. In the merged organization one middle manager can control the locations with a location manager, and the locations with self managing teams than can be controlled by two or three other middle managers. The merged organization should go with this option. Another advantage is that employees who do not feel comfortable in self managing teams, can be transferred to a location with a location manager and vice versa.

Sharing knowledge among the middle managers does require interdependency. The added value is more than the knowledge sharing, but also economies of scale might add value here. The autonomy of the locations should remain intact, but this does not count for the middle management functions. The merged organization will not decrease in value when no autonomy is granted to the middle managers. Therefore the need for organizational autonomy, concerning the middle managers, is low.

Facility department

The second matter regarding administrative practices and structure in which the merged organization should take a decision is the facility department. In the current situation SKWT has a facility department, which contains a facility manager, a management assistant, two front desk employees and two facility support employees. KOOS on the other hand has no facility department at all. Although KOOS has a (financial) management assistant, every other task concerning facility matters are divided over other functions, mostly over the cluster managers and the Manager Administration.

For the merged organization the integration decision about the facility department will not be easy. On the one hand a facility department brings specialized skills, but on the other hand it comes with great financial costs. When the merged organization chooses not to hire a facility manager, the workload on the middle managers and the manager administration/manager finance and control will grow. On the other hand, they save money. In both cases the need for strategic interdependency is high. If a facility department is installed, the value creation will result from functional skill transfer. If the facility tasks are divided over other functions, the value will mostly be created through economies of scale. Working with both systems at the same time, is not an option because no extra value will be created, therefore the need for organizational autonomy is low.

HRM department

As a result of an ongoing collaboration between SKWT and KOOS, the HRM departments of SKWT and KOOS are shared. KOOS is buying, for a fixed price a year, half of SKWT's HRM department.

Although some functions needed to be created to handle the extra amount of work, both organizations benefit from this structure. KOOS is buying expertise and thus the quality is improved, while SKWT benefits from the cost splitting without losing any quality. A point on which can be further integrated is the client administration. When the merged organization is integrating the two client administrations, value can be added. This value comes from two points: economy of scale, more of the same acts will relatively cost less time, and knowledge sharing. When autonomy is granted to one of the two client administrations no extra value will be added, which makes the need for organizational autonomy low.

Finance and control

The departments Finance and Control/Administration can easily be integrated. The same sort of work is done, only some other practices are used. The integration of this department will add value through operational resource sharing. Economies of scale will be obtained as relatively less work has to be done by the finance and control department. The capabilities of the department do not become in jeopardy when the departments have to integrate. The need for organizational autonomy is thus low.

Cultural practices

The cultures in the current organizations are quite similar to each other. Both organizations are open, have informal manners, and are easy accessible. Differences are that KOOS is less formalized, they have fewer rules and documentation, while SKWT has a higher degree of formality. Partly due to this degree of formalization, KOOS is less 'controlled' than SKWT. SKWT tries to cover every risk, while KOOS tries to keep the risk within boundaries. Also SKWT is more centralized, while KOOS is more decentralized. A good example of this centrality is the way the locations are managed.

Of course every employee within the organizations has an opinion about the merger and the other organization. Overall, the opinions of SKWT's employees about KOOS are quite positive and think KOOS is a good partner for a merger. This is not the same the other way around. Most people spoken with from KOOS are not undividedly happy with SKWT as a possible merger party. They think they do a better job with fewer resources. They feel that a merger will only help SKWT.

Because the cultures are so similar, there is no need to keep the cultures existing apart from each other. In other words, there is no need for organizational autonomy.

Personnel characteristics

The merged organization should take into account the personnel characteristics when integrating the two former organizations. When the merger is a fact, 361 employees will work for the merged organization. This is before any integration has taken place, so this figure will decrease some. The gender distributions of the current situation are given in table 4.4. A control figure, the national average, is also included.

Gender	SKWT	KOOS	National average*
Man	6,88%	3,49%	4,4%
Women	93,12%	96,51%	95.6%

Table 4.4 Distribution by gender *CBS (2009)

When all employees stay in the merged organization the percentage of man will be 5.26% versus 94.76% women. Considering most men in both organizations are active in overhead functions, most part of the integration takes place, the change is big that this percentage will go down further. The merged organization's employee distribution by age will be very close to the national average.

Second the distribution by age is considered. These figures are presented in table 4.5.

Age	SKWT	KOOS
<20	0%	9,30%
20-25	24,87%	26,74%
25-30	20,63%	18,02%
30-35	17,99%	8,14%
35-40	11,11%	9,88%
40-45	6,88%	5,81%
45-50	10,05%	12,21%
50-55	5,29%	4,65%
55-60	3,17%	4,65%
>60	0	0,58%

Table 4.5 Distribution by age

SKWT claims that many of the older employees are working in the overhead of the organization. Therefore it is likely that the merged organization will have a slightly younger personnel file than the organizations currently have.

The absenteeism is an important issue in the childcare industry. The lower the absenteeism, the lower the personnel cost an organization has. At SKWT the absenteeism decreased over the past years, from 7.5% in 2006 to 4.0% in 2010. At KOOS the absenteeism is even lower: 2,98%. Both organizations do a good job regarding absenteeism, considering the national average is: 5,8% (Kinderopvang Totaal, 2010). Both organizations find the reduction of absenteeism an important issue. Also for the merged organization this remains an important issue.

As said before the integration of the personnel file will add most value in the merged organization's overhead. But also the 'substitute poule' can be relatively smaller, which saves costs.

Integrating the two groups of employees will not be a problem considering the distribution of gender and age of both personnel files. By integrating, the personnel file can potentially be smaller than the accumulated personnel files. Therefore there is a need for strategic interdependency. Value will not be destroyed when the personnel files will be integrated, the need for autonomy is therefore low.

5. Conclusions

This research addresses a business problem at “Stichting Kinderopvang West Twente” (SKWT) and “Kinderopvang KOOS” (KOOS). Both organizations are foundations that offer childcare services. SKWT is based in Nijverdal and offer their services in Hellendoorn, Rijssen-Holten and Wierden. KOOS has locations in Olst-Wijhe and Raalte and their central office is located in Raalte. The childcare industry is dynamic and fast changing as a result of the changing government regulations and the accessibility for new competitors. The trends for the coming years are a stagnating demand and a higher supply. The past years the market was growing, but it is expected that it will balance in the coming years. The industry is also characterized by a number of organizations with an aggressive growth strategy. This trend and the aggressive competitors are the fact that SKWT and KOOS are searching for ways to secure their future. One of the possibilities is a collaboration or a merger between the two organizations. This study focuses on the best conditions for a merger between SKWT and KOOS.

In this research two theoretical concepts are used: the integration model, and a model to assess the degree of fit between two organizations. The former model can be used to find the optimal way to integrate. The need for organizational autonomy and the need for strategic interdependency are determinants of this integration model. The latter model is used to ensure that all facets of a merger are studied, and assumes that there has to be a certain fit between the two organizations in order for them to integrate. The model suggests that several sub-analyses have to be executed in order to assess the fit. These sub-analyses are divided into two main subjects: the strategic fit, and the organizational fit. The first is concerned with a industry, market, product, customer, and financial analysis, while administrative practices, cultural practices, and personnel characteristics are analysis that has to be performed under the organizational fit.

Three types of data collection methods are used: interviews, observation, and documentation. The most dominant data collection method was interviews.

The results show that in the case of SKWT and KOOS there is a high need for strategic interdependency and a moderate to high need for organizational autonomy. Next to this, the most dominant type of capability transfer is operational resource sharing, because this will create the most financial value. Therefore the optimal type of integration is a symbiosis approach. The value creation in the merged organization due to the integration takes place in two main forms: Functional skill transfer, and the operational resource sharing. The former means creating value trough learning from one another, working more efficient and sharing knowledge. The second has a more financial background. By combining the similar parts of the organizations synergies are created. Where the first part of the value creation takes place in the entire merger, at the operational functions, the middle management and the higher management, the operation resource sharing will mostly take place in the overhead of the merged organization.

The childcare industry can be characterized as dynamic and fast changing. Because the merged organization will operate in the same industry as the two former organizations did, it will not have a problem adapting. The merged organization will have a interregional character, instead of the regional character that SKWT and KOOS had. This improves the merged organization’s market and buying power, which result in a better negotiating position and thus in financial benefits. The competition for the merged organization will be fierce with the national operating Catalpa and SKON. But also SKE and Allio pose a serious threat to the merged organization. In order to withstand these

threats from the market, the merged organization must maintain an optimal spread in its service area. Then the competitors will have no chance to start in the service area of the merged organization. In order to maintain an optimal spread of the locations, the locations cannot be physically integrated with each other. By closing a location the spread is less optimal and thus value is destroyed. Therefore the need for organizational autonomy is high. Value can be created by transfer of skills and knowledge. The locations can improve their processes by taking the best of both former organizations. This can only be accomplished when boundaries between the two organizations are disrupted. The need for strategic interdependency is thus high. The merged organization should use two different forms for managing its locations. On small locations they should use self managing teams, and on larger locations a location manager should be in charge.

The product portfolio of the merged organization will be the same as the product portfolios of SKWT and KOOS were. The quality level must be high and to obtain the highest quality level possible, the former approaches must be integrated. Then the best of both worlds can strengthen each other. The merged organization must level all their prices to the level of KOOS. The opening hours must be set to the standards of SKWT. The revenue loss and the revenue gains will cancel each other out.

By integrating doubly occupied functions, value is created through economies of scale. The merged organization will not be able to integrate the HRM department, because SKWT and KOOS already have one HRM department. But the client administration can be combined in order to reach economies of scale. This is also the case for the department Finance and Control (SKWT) and Administration (KOOS). For these departments the need for strategic interdependency is high and the need for organizational autonomy low. The merged organization has to deal with two different approaches regarding the facility activities. Where SKWT has a facility department, KOOS has divided the facility task over several functions. The merged organization has to choose between more specialization in the field of facility management at a financial cost, or takes a financial advantage and spread the facility activities over multiple functions. Both choices will create value, only the first will create value in the form of knowledge and the latter in financial terms.

When the integration is done correctly the financial situation of the merged organization will improve. The revenue will stay at the same level as the accumulated revenue of SKWT and KOOS. But the operating cost will decrease to approximately €11.750.000 These savings are largely achieved in personnel costs, due to the integration. Other costs that will decrease are the housing costs, one central office can be closed, and care taking costs due to the increased buying power. The merged organization also has the possibility to lower their interest cost: the cash that KOOS is currently holding, can be used to pay a part of the long term liabilities from SKWT. This leads to a cost saving of €112.000. The cash position will then be reduced to €300.000. The profit of the merged organization when fully integrated is €725.000. This is an improvement of over €215.000 in comparison with a merger that does not integrate. In order to meet all the cost savings there must be a high degree of integration; this requires a high need for strategic interdependency. At the same time there is a moderate to high need for organizational autonomy, because the locations must all stay separate. As a result of this, the best conditions for a merger is to use the symbiosis approach to integrate. The integration of the two former organizations will not be hindered by cultural differences. Although the feeling towards each other is not always positive, the cultures are so similar to each other that there is no value destroyed when these two cultures integrate.

6. Recommendations

Based on the results and conclusions of the research some recommendations are presented. These recommendations are directly related to the integration after the merger or the performance of the merged organization.

6.1. Integration

Strategic fit between the two organizations is the basis for potential value creation, but managing the merger process well is the actual value creator. Three elements are essential for a successful merger and good performances: 1) Having an initial view of the integration approach that corresponds to the integration setting, 2) being able to adjust one's initial view of the integration approach to be followed, and 3) the organization's ability to deliver on the intended approach.

6.2. Internal competition

The feeling toward each other is sometimes negative. This is especially the case with the employees of KOOS. They think KOOS is better off alone than in a merger. In order to make the integration, and thus the merger, successful, this feeling toward each other should be addressed thoroughly. Good communication is a key factor in this process: the advantages of the merger for the organization as a whole must be stressed.

6.3. Middle management

The merged organization can use two different forms of location management. At the bigger locations a location manager is appointed, the smaller location will work with self-managing teams. With this approach it is avoided that the span of control becomes too big at locations. The size is thus the determinant for the decision between location manager and self-managing teams. An added advantage is that the staff that does not feel comfortable in self-managing teams can work at locations with a location manager. Of course this can also be the other way around.

6.4. Competitors

The merged organization must make sure that three points are in order to prevent the competitors into its service area. The first point is to ensure a good financial health, the second is to maintain an optimal spread of the locations, and the third is to have no or as shortl as possible waiting list, in other words to have enough capacity. If these three points are not kept, large competitors will see opportunities to take over a part of the service area of the merged organization, which leads to the weakening of the financial health. In the end the large competitors try to drain the merged organization so far, that the competitor makes an offer to take over the merged organization.

6.5. Product pricing

When the merged organization is a fact, it will have two different price levels. This is undesirable because customers will complain about the different price levels. Therefore the price levels must be adjusted in order to get them level. This can best be done by lowering the prices of the former SKWT locations to the standard KOOS had. Then the opening hours of the locations in Salland can be widened. This will lead that the old customers of SKWT will pay less for the same services, and the old KOOS customers will pay more. But the old customers also get an extra service in the form of wider opening hours. This will compensate each other, so the revenue will stay at the same level. The extra costs for the longer working hours of the attendances should also be taken into account.

7. Discussion

The construct validity is concerned with the operationalization of the used concepts. Although several theories are studied in this thesis the theories of Jemison and Haspeslagh (1991) and Jemison and Sitkin (1986) are used to operationalize the concepts of Strategic and operational fit, strategic interdependency and organizational autonomy.

To improve the internal validity this research used triangulation within the data collection. This means that several data collection techniques are used, in this case interviews, observation, and document analysis.

This study focuses on a possible merger between SKWT and KOOS. It is not the aim to generalize the results, but to explore a single case study. Thus the external validity is low. This study is an exploration of the theories about mergers and integration after the merged organization. The study tested the used theories on their practical relevance. For future research the used model can be applied to other potential merger cases. This model is able to identify the extent of fit between the two potential merging organizations and the best integration method after the merged organization. The model is not limited to childcare organizations or to non-profit organizations, it can also be used for for-profit organizations. This model is so widely applicable because it identifies all relevant critical points in a merger investigation. These critical points are the same for every type of organization. The framework is thus applicable for every potential merger case, the content will be different for each case.

To find the most appropriate model for integrating the two organizations, the model of Jemison and Haspeslagh (1991) and the model of Jemison and Sitkin (1986) were used. By using these models a systematic approach for research to a potential merger between two organizations is established. When this same research is conducted, using the same systematic approach the results will be similar to those presented in this report. The framework ensures that the research can be done in the same way as this research, because it defines the constructs and it explains which indicators to use for which items and how to operationalize these indicators. This means that although the interviews were unstructured, in future research the items for the research will be clear because the framework gives clear definitions and indicators.

To increase the reliability a relation between the interviewer and the interviewees was established. This relation resulted in a confidential and safe environment for the interviewee to give honest answers and opinions. By probing further the core of what is meant is discovered. The reliability is thus high.

This scientific report recommends practical issues for the merged organization between SKWT and KOOS. After a merger a symbiosis approach should be used to integrate the two former independent organizations.

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Appendix 1: Data list SKWT

General	
Full name	Stichting Kinderopvang Oost Twente
Address	Maximastraat 1 7442 NW Nijverdal
Phone	0548 632300
Director	C. Huisman
Financial	
Revenue	7.129.989
Operational costs	6.601.522
Net profit	272.978
Capacity	
Number of location	18
Total capacity BSO	475
Total capacity KDV	430
Number of links guest parent bureau	-
Occupancy rate BSO	48%
Occupancy rate KDV	66%
Personnel	
Number of employees	189 (120 FTE)
Of which female	176 (111,83 FTE)
Of which male	13 (9,06 FTE)
Absenteeism	4%

Appendix 2: Data list KOOS

General

Full name Kinderopvang KOOS

Address Passage 7
8010 EW Raalte

Phone 0572-360185

Director A. Ter Avest

Financial

Revenue 5 653 561

Operation costs 5 329 387

Net profit 252 908

Capacity

Number of location 18

Total capacity BSO 530

Total capacity KDV 228

Number of links guest parent bureau 954

Occupancy rate 83%

Personnel

Number of employees 172 (89,61 FTE)

Of which female 166 (87,17 FTE)

Of which male 6 (2,44 FTE)

Absenteeism 2,98%

Appendix 3: Summary of Haspeslagh and Jemison (1991)

This chapter contains a summary of Haspeslagh and Jemison's book: *Managing acquisitions; creating value through corporate renewal*, which was published by: Free Press in New York at April 1, 1991.

Acquisition justification

Before the actual merger of acquisition happens, a whole process of analyzing and decision making has taken place. A good and sound analysis in order to make the good decisions regarding the acquisition is called the *Acquisition Justification*. All acquisitions are strategic in nature, but not all acquisitions are strategic acquisitions. *"By a strategic acquisition is meant one which the justification process resulted not only in the approval of the acquisition, but also in the clarification of a strategy within which the acquisition could fit and on the basis of which the integration could be guided"*. In order to judge the soundness of the acquisition justification, they propose six criteria. These six criteria are imbedded in the schematic representation of acquisition decision process, see figure 1.

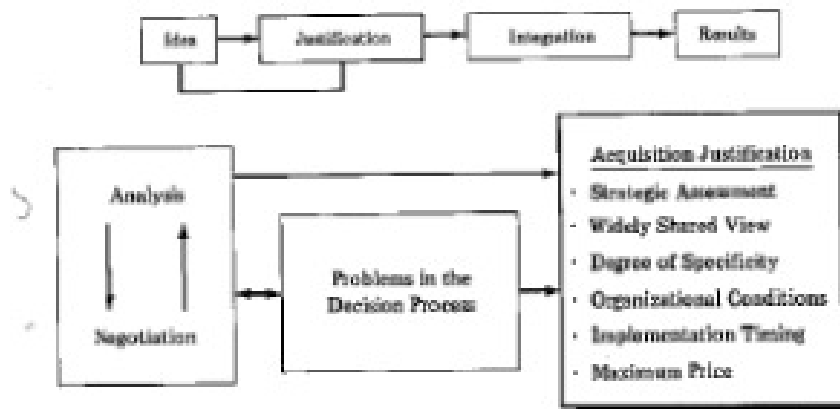


Figure 1 Acquisition decision process by Haspeslagh and Jemison (1991)

The strategic assessment is important because it is about the acquisition's value creating potential. This value creating potential is assessed by looking at the implications of the acquisition on the strategy. Also the firm's competitive position will change by an acquisition; this should also be addressed in the strategic assessment. It is critical that this assessment considers not only the target company, but also the own company. Also both firms' competitive positions as well as the competitive position of the new organization should be considered.

In order to have a sound decision making process, it is important that key decision makers share a common strategic logic. This does not mean that they have to agree on everything, but the strategic view on and the vision for the organization must be the same. Most of the time there is no lack of strategic thinking, but a lack of coordinating this strategic thinking opposes a problem in the decision making process. So many strategic logics can be opposed for an acquisition, but it is important that consensus is reached about the strategic logic that is focused on for the initial value-creation.

Of course the specificity in sources of benefits and problems is highly important. It is critical that all advantages gained by the acquisition are considered. Not only the obvious ones, but also the advantages that are less obvious. This is also the case for potential problems when acquiring a firm. All risk should be sorted and examined to reduce these risks. A threat to the objectivity of the writer

of the justification can be the need to 'sell' the acquisition to top-managers. This can lead to an incomplete picture of the possible risks.

The organizational conditions of both firms should fit in order to establish a good acquisition. The availability of responsible managers is one of the aspects of organizational conditions. Next to the organizational conditions, it is important that the whole process of integration is considered and not only the endpoint. Where to start, the pace to proceed and how to get there are just as important for a successful integration. The last criteria that should be imbedded in the acquisition justification is the maximum price the firms want to pay for the target. Although a valuation is always objective and imprecise, it is important to translate the potential value creation into a sensible financial valuation.

The research found that managers had four main problems concerning the development of a good acquisition justification: 1) Fragmented perspectives, 2) increasing momentum, 3) ambiguous expectations, and 4) multiple motives.

1. Acquisition decision making is different from a normal investment decision in many ways. But because it often happens in secrecy, many specialists working on the acquisition are working isolated from each other. This leads to judgment and recommendation making without coordination. All these specialist work on their terrain, and do not consider aspects of other disciplines. This leads to fragmented perspectives and "it is often difficult for one manager or a group of managers to maintain a generalist's grasp of the transaction".
2. An acquisition process should be a very careful process, but when the pace, tension, and involvement of those involved in the process rises, it can be hard to stop or even slow down the process. This momentum undermines the precision of the acquisition process. Momentum occurs among all people involved: top-managers, middle-managers, and also (outside) specialist advisors. The desire to close the deal leads to premature results, inadequate considerations of integration issues, and less likelihood of a successful outcome. Personnel commitment, one of the three forces of momentum, is created due to the feel the participants have about the acquisition. Because of the relative time the participants need to invest in the process, it may seem more important than it is and makes it difficult to walk away from it. But also career aspirations, rewarding and self-interest of the participants can build personnel commitment. Secrecy is the second force that creates momentum. The secrecy around an acquisition process can be explained by the uncertainty that is caused when everybody knows about a coming acquisition. This period of uncertainty has a negative influence on the organization; therefore pre-acquisition processes are kept secret. Momentum is build up when participants are afraid that news about the acquisition is leaked. The last forces of momentum are outside advisors. Outside advisors are usually paid per closed transaction; therefore they want to close as many deals per year. Due to this the process is speeded up and momentum is built up.
3. With the negotiations, when momentum is already built up, it is tempting to close the deal and deal with 'details' later. Both parties have different expectations of these details, and must be resolved after the deal is closed. This legacy goes directly to the operating managers of the organizations. This ambiguity, although it helps to conclude the deal, will decrease the chance of success of the integration. "That ambiguity is useful, if not essential, to develop the internal and interfirm political coalitions necessary to reach agreement during the

negotiations phase. Yet the same ambiguity that aids in negotiations can sow the seeds of later post-acquisition problems”.

4. The last problem causing a poor acquisition justification is multiple motives. Multiple motives are usually used to convince every unit in the organization. When listing all synergies some are incompatible with each other. This means that only one of the two can be reached. Although this is known by the one who is ‘selling’ the acquisition internally, these multiple motives are used to sell the acquisition to every unit within the organization. In the post-acquisition this leads to unclear priorities and less successful integration of the acquired firm.

The resource allocation process in an organization is also a success or failure factor in an acquisition process. When the resource allocation process is more robust and adaptable it is more likely that an acquisition is successful. When the resource allocation process is limited the success chance decreases. Whether an organization resource allocation process is robust or limited can be analyzed through 5 dimensions:

1. Time horizon of managers: Short or long
2. Managers’ concept of how to compete: result or capabilities
3. Substantive involvement of top management: low or high
4. Decision making: Analytical or political
5. Decision making: Consensual or individualistic

How these dimensions relate to the resource allocation process, is shown in figure 2.2.

<u>Factors</u>	<u>Limited</u>	←-----→	<u>Robust</u>
Managerial time horizon	short		long
Concept of competition	results		capabilities
Substantive involvement	low		high
Basis of decision making	political		analytical
Nature of decision making	singular		consensual

Figure 2 Resource allocation styles by Haspeslagh and Jemison (1991)

Organizing for acquisitions

How to organize an organization for acquisitions depend on two factors. The frequency of acquisitions and the size of the organization. When a firm has a high frequency of strategic acquisitions a business unit for acquisitions should be created. This is only possible for bigger companies; smaller companies will not have the money for a fulltime acquisition business unit. These smaller companies can still create a business unit for acquisitions, using a ‘second-hat’ approach. This means that next to their normal function in the organizations they will spend a few hours a week on acquisitions. When acquisitions are less frequent a possibility is to establish a taskforce for each specific acquisition. This taskforce is assembled every time an acquisition candidate is considered.

The acquisition taskforce has two main goals, of which the organizing and coordinating of the acquisition investigation is one. The second is a learning and experience developing one. The

taskforce should transmit the knowledge and experience they gain in the process. "They are the vehicles through which the division can build up its own learning and expertise". To reach these goals easiest it seems logic to use the same group of employees every acquisition. This so that they can apply their experience that they have gained in previous acquisitions.

The taskforce should know that when working on an acquisition, they are a team rather than 'competitors' of different business units. In the ideal situation, the taskforce should be led by the manager that has the final call on the proceeding of the acquisition. Also it is good to include in the taskforce someone that will have an important management role after the acquisition. This can help with post-acquisition integration problems.

Integration process

Good integration of two organizations will lead to capabilities transfer and to value creation, it is what makes the acquisition work. This is what managers found difficult. Managers found it time intense, uncertain and full with risks and setbacks.

In the decision a justification process the integration part is usually not discussed in detail. As said previous this makes the negotiations easier, but the integration harder. The details of integration are usually skipped because of its complexity and uncertainty. The integration approach also depends on the goals that are set for an acquisition. This also makes it harder to discuss it in detail in the justification process. But in every acquisition there are some common factors that play a role. These common sets of elements are presented in figure 2.3.

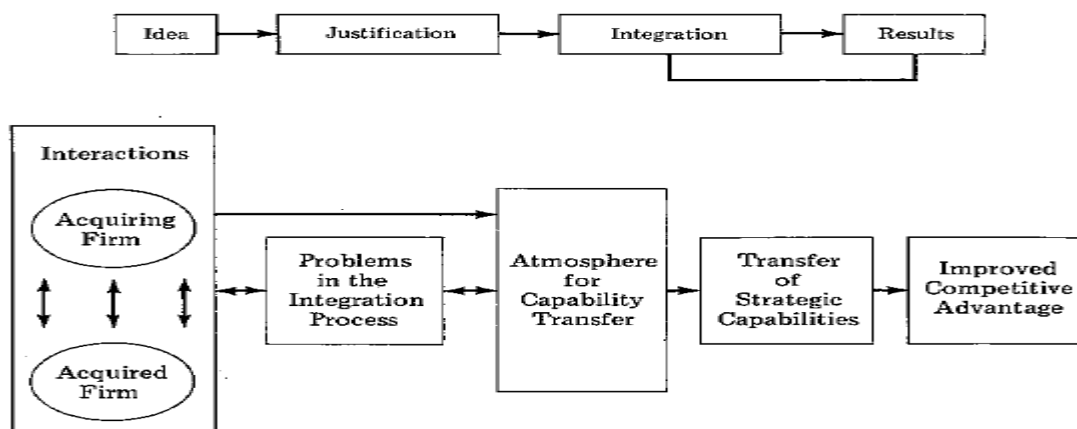


Figure 3 the acquisition integration process by Haspeslagh and Jemison (1991)

"Integration is an interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities". So the individuals in the two organizations should interact together. In order to do so a proper atmosphere should be created. Only when there is a proper atmosphere the transfer of strategic capabilities is possible. This transfer will lead to an improved competitive advantage.

So the most important aspect of integration is the transfer of strategic capabilities. Three main types of capabilities transfers and also combination benefits are discussed. The three types of capabilities transfers are: 1) operational resource sharing, 2) functional skill transfer, and 3) general management skill transfer.

1. Operational resource sharing: This can take place by giving or sharing. Sharing office space and manufacturing facilities and combining the sales force are examples of operational resource sharing. By sharing or giving economies of scale will be reached. These economies of scale are typically the value creators in this kind of capabilities transfers. The cost of this integration can hide in combining the assets or coordinating their joint use. "For resource sharing to create value, the benefits of sharing must outweigh these hidden costs of compromise".
2. Transfer of functional skills: This capability transfer is harder and takes longer to complete than operational resource sharing. It takes a process of learning and teaching before the skills can be transferred. Usually skills are tacit and are hard to write down. The only way this skill transfer can be done is by working with each other, the skills are embedded in the skills of individuals, groups, procedures and/or culture of an organization. The more the skills are imbedded, the longer it will take to transfer them.
3. Transfer of general management skills: Unlike the transfer of functional skills, which happens mostly horizontal, the transfer of general management skills implies mainly vertical interactions. General management issues are: strategic directions, resource allocation, financial planning and control, or human resource management. The transfer can take place through subtle coaching, direct involvement or impositions of systems.
4. Combination benefits: These are benefits that do not require major effort or coordination. When combining these firms these benefits already occur. Market power and purchasing power are examples of these benefits.

As said this capability transfer will only sustain when the 'atmosphere' is right. A right atmosphere has five main elements on which are elaborated on next:

1. A mutual understanding of the organization and culture of the firms: Although the need for this mutual understanding is biggest when tacit skills need to be transferred, in every integration mutual understanding is needed. Learning about each other organization and culture and then learning the capabilities to be transferred is the best way to achieve this mutual understanding.
2. Willingness to work together: In many acquisitions one firm felt they have lost which leads to a decrease of the willingness to work with people from the acquiring firm. Further the willingness to work together is affected negatively when people are scared to lose control or even their job. Also the feeling 'they are bigger than us, so they will know better' will decrease the willingness to work, just like the desire to hold on to ways of doing. Letting the people 'get used to the idea' of an acquisition can help the later willingness to work.
3. Capacity to transfer and receive the capabilities: "For capabilities transfer to occur, the parties must have the capacity to participate in the transfer; that is, the capability must exist and the appropriate people in both firms must be able to transfer or receive it". If a capability does not really exist it cannot be transferred, and the receiving end should have the intellectual and organizational abilities.
4. Discretionary resources: In order to create the right atmosphere resources, not only money but also staff and management, should be invested to sustain the integration. This means tempering the short term expectations so the acquired organization has the room to adapt and grow. The financial results must be met on the long term.

5. Knowing the cause-effect of the benefits from the acquisition: Managers must understand the nature, the source, the timing, and the predictability of the benefits they expect from the acquisition. Usually this is described in the acquisition justification.

Just like a good atmosphere is needed for capability transfer, interactions are necessary for a good atmosphere. There are multiple types of interactions: Substantive interactions are interactions directed toward transfer capabilities. Administrative interactions develop information and control systems to bring the acquired firm in the overall corporate fold. Symbolic interactions are more political and focus on promoting or changing certain beliefs. Although substantive interactions appear to be the most important, the other two are just as important. Especially in the early phase of the integration this is important. Administrative and symbolic can also have substantive outcomes.

In the integration process there are three problems that are recurring. These problems prevent necessary interactions and the creation of the right atmosphere for capability transfer and value creation. The three most common recurring problems in acquisition integration are: 1) determinism, 2) value destruction, and 3) leadership vacuum. The forces which create these problems occur in every acquisition and merger integration, but in the successful acquisitions integrations the management recognized the forces and coped with them, while the failing acquisitions failed to recognize the problems.

1. Determinism: No matter how sound the acquisition justification is, the post-acquisition situation is always different as expected. This is possible because of the appearance of new information and unexpected events. "The problem of determinism arises when this initial justification is not altered to accommodate the changed situation in which the firm finds itself". The unexpected events create an uncertainty for the managers; while this uncertainty arises the acquisition justification can give the managers a false sense of security. And this sense clouds the manager's decision making about the altering of the initial justification.
2. Value destruction: With every acquisition comes change and with every change comes fear, uncertainty, and a tendency for self-preservation, which leads to resistance to change. With this employees destroy value for themselves. This value destruction affects the willingness and capacity of employees to participate in capability transfers. This value destruction can be either physical or economic. "Physical value includes such factors as opportunities for career advancement and status that comes from membership in a particular organization".
3. Leadership vacuum: Institutional and interpersonal leadership are highly needed in order to create an atmosphere for capabilities transfer. Management attention tends to peak around the actual acquisition deal and decreases afterwards. But for employees and middle management to develop, understand, and embrace the acquisition and understand their role in the acquisition institutional leadership is required. The problems that arise when a leadership vacuum occurs are multiple. No capability transfer atmosphere is created, employees do not understand the mutual values and purposes, and employees tend to go back to former and more familiar behavior.

Integration Approaches

Every acquisition is different from another acquisition and every acquisition presents other problems and opportunities. Therefore there is not one right integration approach. "While there are common ingredients in the process, each acquisition presents managers with a different situation and forces a

choice of integration approach". Two central dimensions of the acquisition should be carefully considered when choosing an integration approach: First the relationship between the two firms and second the way in which value is created. Relating to the former: In order to make the expected capability transfer possible the degree of interdependence between the two firms needed must be considered. The latter dimension relates to the need to preserve intact the acquired strategic capabilities after the acquisition.

Strategic interdependence need

The key thought of an acquisition is that by joining two organizations value is created that is not possible when the two organizations remain operating separate. Value creation is only possible when the capabilities can be transferred. "Such capability transfer requires creating and managing interdependencies between both organizations". The nature of the interdependency and how managers cope with this interdependency is therefore a key factor in the integration approach. So for creating value, the boundaries between the two firms are disrupted or removed. The extend of disruption, or even removal, of these boundaries is dependent on how the value is to be created, through operational resource sharing, through functional skill transfer, or through general management skill transfer.

When an acquisition is based mainly on resource sharing, combining and rationalizing the operating assets, it is likely that the boundaries that exist between the two organizations are totally removed. In order to create value in a resource sharing acquisition, the operating level of both organizations should be combined. By doing so, "functional overlaps and duplications are eliminated". This removal of these overlaps and duplications must lead to greater cost efficiency. It is important that the value created through the greater efficiency is bigger than the costs for integration are.

When the value is created through the capability transfer of functional skills, the integration process is essentially different. Because the skills than are not in assets, but in individuals or groups and their procedures and their way of doing, these skills "can only be transferred as people are moved across organizational boundaries or when information, knowledge, and know-how are shared". The interactions in this type of capability transfer are horizontal, this means that employees on the same level cooperate and share knowledge without telling the other what to do or being told what to do.

In general management skill transfers, both firms can stay separate entities, but entity A gets told what to do by a manager from entity B. This usually involves the introduction of "systems, controls, budgets and plans that improve both the strategic decision making and the operational efficiency of acquired management". Value is than created through improved insights, either strategic or operational, coordination or control. Because both entities can remain separate, the general management transfer is regarded as less disruptive than the former two. There is a onetime chance and when this change is implemented they can work without further disruption.

Although in many acquisitions multiple forms of value creation will arise, it is wise to recognize only one transfer of capabilities as the prime source of initial value creation.

Organizational autonomy need

While the strategic interdependence is how to create value with certain capabilities, this key dimension is related to how the capabilities should be preserved. "Whereas capability transfer requires different degrees of boundary disruption or dissolution, the preservation of capabilities

requires boundary protection and, hence, organizational autonomy". When capabilities are in individuals and groups, they are hard to transfer. For these transfer they need horizontal interactions, but when chances are too disruptive some employees may decide to quit their jobs. This means that the capabilities for which a firm is acquired are also gone. These capabilities should be preserved in the integration process.

"Dealing with the perceived need for autonomy after an acquisition is one of the most important challenges a manager will face". Not deviating from the transfer of strategic capabilities to create value unless their boundary protection is highly needed for the preservation of capabilities. The need is high "when the strategic capabilities whose transfer is key to the acquisition are embedded in a distinct organization and culture and that distinction is central to the preservation of those capabilities". There are three questions that can be asked to examine the need for organizational autonomy: "Is autonomy essential to preserve the strategic capabilities that we have bought? If so, how much autonomy should be allowed? And in which areas specifically is autonomy important?" So autonomy should be granted if strategic capabilities are locked up in an organizational culture. If they are not, no matter how different the acquiring and acquired firm's cultures are, autonomy should not be granted. The main question is thus: Is maintaining the two separate cultures going to serve a long term purpose? Next managers should examine whether the preservation is necessary for the whole acquired firm, or only one or two business units of that firm. These factors help to distinguish the degree of need for organizational autonomy. If both the need strategic interdependence and the need for organizational autonomy are considered, a type of integration approach can be defined.

Types of integration approaches

In figure 2.4 the two key dimensions are combined into one grid. This grid shows the most suitable integration approach under the different circumstances.

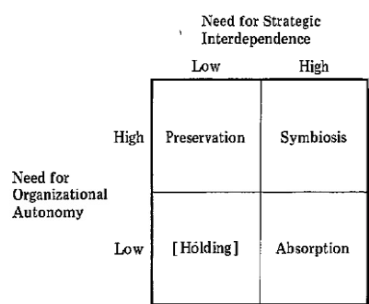


Figure 1 Types of acquisition integration approaches by Haspeslagh and Jemison (1991)

Some acquisitions calls for high strategic interdependence and a low need for organizational autonomy, the best integration approach to implement the acquisition is then: Absorption. Other integrations need low interdependency and high autonomy, these dimension need a integration approach called preservation. When both the need for interdependency and the need for autonomy is high, a integration approach called symbioses is suitable. When both the need for interdependency and the need for autonomy is low, a holding acquisition is best. When the acquiring firm has no intentions to integrate the acquired firm and only wants to create value through financial transfers or risk sharing, although there is no need for organizational autonomy a holding 'integration' is most suitable. Because this sort of integration is not strategic in nature, it will not be elaborated on.

1. Absorption acquisitions: Because the need for interdependency to create value is high, but has a low need for autonomy to preserve the capabilities, it is best to fully integrate, operations, organization, and culture, the both firms. Although this may take a long time, the goal of this integration approach is to eliminate the boundaries between both organization completely. This can be hard because of sensitivity to cultural aspects. Too much sensitivity can lead to less value creation. Therefore it is not the question to which extend should we integrate, but which time path to integrate is justifiable.
2. Preservation Acquisition: This type of integration approach is used in acquisitions where the need for interdependency low is and where the need for autonomy high is. The preservation of capabilities is the primary goal for this sort of acquisitions. This is done by keeping the boundaries between the firms. Value is created through what Haspeslagh and Jemison call nurturing. Nurturing bring positive changes to the acquired firm, such as ambition, risk taking and professionalism. Value can also be created by the decrease of costs for raw materials.
3. Symbiotic acquisitions: The last type of integration approach are called Symbiotic acquisitions. These are applicable when a acquisition calls for “a high need of both strategic interdependence (because substantial capability must take place) and organizational autonomy (because the acquired capabilities need to be preserved in an organizational context hat is different from the acquirer’s)”. In this approach the two organizations exist next to each other, and when time passes they become more interdependent. In the symbiotic approach boundaries need to be preserved and boundaries must be permeable at the same time. “To succeed in truly amalgamating the organizations symbiotically, each firm must take on the original qualities of the other”.

Next to the need of strategic interdependency and the need for organizational autonomy, two other factors also play a role in the success of an acquisition: 1) the quality of the acquired company, and 2) the acquisition size.

1. The quality of the acquired organization: For an acquisition to be successful the condition of the acquired firm prior to the acquisition plays a role. The success rate is higher when a profitable firm is acquired then when a less profitable organization is acquired. This may be partially be explained by the fact that managers overestimate their abilities to turn around the acquired firm. Most important is that the management team of the acquired firm is qualitative strong enough.
2. Acquisition size: Smaller acquisitions are less likely to be successful than larger acquisitions. More important is the stage of development that the acquired company is in, acquisitions that need more investment require more experience from the acquiring firm.

Managerial concerns for integration

Three issues raises the most managerial concerns for integration:

1. Balancing expectation: Corporate management is presented with a many different expectations after the acquisition, which are hard to deal with. Because the acquisition justification will not precisely predict the post-merger situation, management should find the right balance between adapting to the new situation, or to stay determined to the original justification.

2. Institutional leadership: In order to counteract employees' uncertainty, insecurity and value destruction, institutional leadership is needed. Corporate management should "reformulate and credible communicate the new purpose of the combined organization and the implications to all affected parties". The style of this institutional leadership differ for each integration approach and whether the firms should reformulate their purpose.
3. Interface management: Gatekeepers, persons who lead the integration, should make sure that no counterproductive interferences take place. The quality of the interface management by this gatekeeper determines whether the acquisition value can be created. How to play the gatekeepers role strongly depends on the type of integration approach.

How each of these issues depend on the different integration approaches is shown in figure 2.5 and elaborated on next.

	Absorption	Symbiosis	Preservation
<u>Expectation Management</u>	Predetermined	Adaptation	Learning
<u>Institutional Leadership</u>	Transfer of Affiliation	Redefinition of Purpose	Reconfirmation of Purpose
<u>Interface Management</u>	Transitional Management	Membrane Regulation	Boundary Protection

Figure 2 Integration issues and integration approaches by Haspeslagh and Jemison (1991)

Expectation management

To understand the issue of expectation management and thus the relation between the acquisition justification and post acquisition management, Haspeslagh and Jemison describe four paradoxes.

1. The first is absorption and the acceptance paradox. While a absorption approach can use a fairly determined approach, it is good to 'move as fast as possible'. Waiting for extra information will not gain more benefits, and inaction has a high cost. The paradox is in the fact that when one moves to fast not all employees has accepted the change, but when moving to slow it becomes more difficult and disruptive to integrate the two organizations.
2. The independency paradox is related to the integration approach preservation. Preservation acquisition are usually made to enter a new domain, which makes the acquisition a opportunity to learn. For the acquired firm to benefit no changes should be made in the early stages because their capabilities should be preserved. For the he acquiring firm to benefit from the acquisition, it is necessary to change some things in order to make the learning process possible. So in one way the acquired firm must stay independent, but in the other way some of this independency should be erased.
3. Both organizations need a adaptive attitude in a symbiosis integration approach. In this integration approach patience is an important factor. Patience to create the right atmosphere to transfer capabilities. But this patience is put under pressure by the need to meet the performance targets set in the justification phase. The more actions managers take

to transfer capabilities, the more resistance some employees get and thereby decreasing the change for benefits to arise.

4. The fourth and final paradox is more general and called the planning paradox. One would expect that a opportunistic acquisition leads to a more adaptable process, and that a strategic or planned acquisition leads to a deterministic process. But the opposite is true.

Institutional leadership

What type of institutional leadership is required differs per integration approach. In an absorption approach it is important that employees of the acquired firm can transfer their affiliation to the acquiring firm. Corporate management is expected to create an atmosphere where this is possible. In a symbiotic acquisition corporate management should guide the redefinition of the purpose of both organizations. “The combination of almost equal-sized companies requires a commitment to a new purpose, a new organization, and a new set of values on both sides, rather than the orchestration of the ‘surrender’ of one organization to the other”. In preservation acquisitions no purpose has to be changed. But it is important for the management to reconfirm the purpose of the acquired firm, which helps to avoid uncertainty in the acquired firm.

Interface management

The gatekeeper, who is responsible for the interface management, a “temporary responsibility structure needs to be established to control the pace, nature, and timing of interactions”. In a preservation it is the gatekeeper’s job to preserve and secure the identity, culture, and capabilities of the acquired firm by respecting the boundaries between the companies. In a symbiotic acquisition a gatekeeper should set up a kind of filter through which a regulated flow of interactions, capabilities, and resources can flow.

Integration approaches and performances

Strategic fit between the two organizations is the basis for potential value creation, but managing the acquisition process well is the actual value creator. Three elements are essential for acquisition performance: “1) having an initial view of the integration approach that corresponds to the integration setting, 2) being able to adjust one’s initial view of the integration approach to be followed, and 3) the organization’s ability to deliver on the intended approach.

Appendix 4: Competitors of the merged organization

All competitors that are currently offering childcare in the service area in which the merged organization also offer its services:

Hellendoorn

Kwekkelhoefe
Toolifantje
"Bij Tony"
Stichting Dorpshuis Haarle
't Schanebroekkie
Hexeketel

Rijssen-Holten

Dikkertje DAP
Het Veldmuisje
't Haantje
De Kinderstoet
Het Borghuisje
Kakelbont (Catalpa)
Binky
Het Blauwe Venster
't Kuipje
Klein Duimpje
Het Olifantje

Wierden

De Blauwe Walrus (SKON)

Raalte

't Schoapie
't Schanebroekkie
Het rode bankje
Kikakerstin

Olst-Wijhe

Hummelhonk
Mamalou
Kiek Â'N Koe
Christien's Kinderopvang
De bieenkorf

Not only these local businesses may form a threat to the merged organization, but also larger regional firms and national operating organizations might. These organizations are:

Allio
SKE
Skon
Catalpa

Appendix 5: Ratio calculations

Liquidity ratios

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

Profitability ratios

$$\text{Profit margin} = \frac{\text{net income}}{\text{sales}}$$

$$\text{Return on assets} = \frac{\text{net income}}{\text{total assets}}$$

$$\text{Return on equity} = \frac{\text{net income}}{\text{total equity}}$$

Solvency ratios

$$\text{Total dept ratio} = \frac{\text{total assets} - \text{total equity}}{\text{total assets}}$$

$$\text{Interest coverage ratio} = \frac{\text{EBIT}}{\text{interest}}$$

Asset management ratios

$$\text{Average collection period} = \frac{365 \text{ days}}{\text{Receivables turnover}}$$

$$\text{Total asset turnover} = \frac{\text{sales}}{\text{total assets}}$$