ISCTE Business School
Instituto Universitário de Lisboa

Mergers and Acquisitions – Integration models of Acquired Systems Integration Services Firms, Ericsson Case

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Project submitted as partial requirement for the conferral of

Master in International Management

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October 2009

Abstract

A large literature in M&A studies the problem of integration models considering the economical and financial aspects, the value creation, the synergies, the cultural considerations, integration steps and plans to allow firms to make decisions that are optimal for the acquirer. An important result from this literature is that there are integration archetypes to meet the majority of possible integration realities and that there isn't a right or wrong model but rather a need for alignment between acquirer and acquired firm considering the various parts of each firm. Careful considerations of the criteria such as the organizational structure, the policies or the directives to meet the designed strategy are required to achieve the highest value. The author objectives in this paper are to investigate whether or not there is an optimal model to meet the Ericsson case, for acquisitions in the Systems Integration business. The insights of the M&A literature have allowed the developing of a framework to conduct a thorough analysis on what is behind the decisions of managerial choices and the reality which managers have to face while facing decision on how to conduct an integration process. The significance of specificities of business object of the acquired services companies, being value generated by assets of knowledge, skill and abilities raise the implication of the intangible aspects and relationships of behaviors in the organizations. The paper covers the specific case of Ericsson, derives a relationship between culture, strategy, structure and corporate renewal, reviews the options considered and provides a recommendation of for the appropriateness of the integration model to be followed.

JEL: 0L86 - L - Industrial Organization; L8 - Industry Studies: Services; L86 - Information and Internet Services; Computer Software.
JEL: 0G34 - G - Financial Economics; G3 - Corporate Finance and Governance; G34 - Mergers; Acquisitions; Restructuring; Corporate Governance.

Keywords: Mergers & Acquisitions; Integration Models; Strategy; Services

Abstracto

Uma grande parte da literatura disponível sobre fusões e aquisições endereçam o problema da integração com enfoque económico-financeiro, sobre aspectos relacionados com a criação de valor, sinergias, impacto do choque de culturas das organizações, bem como recomendações sobre as etapas necessárias para assegurar que as decisões reflictam estes aspectos. Uma das conclusões dos autores é a de que existem vários modelos possíveis, já identificados, para a maioria dos processos de integração e de que, não existe um modelo errado ou o mais certo para cada cenário. Todavia para qualquer um dos modelos seleccionados deverá existir um processo com actividades e critérios relevantes para que se considerem as importantes considerações e pré requisitos das diversas áreas a integrar entre a empresa adquirente e a adquirida sejam bem sucedidas. Nestes critérios estão considerados a estrutura organizacional, a politica ou as directivas definidas para alcançar a estratégia definida. Os objectivos do autor nesta dissertação são os de investigar se existe ou qual o modelo de integração mais adequado para o caso das aquisições de empresas de serviços da área de integração de sistemas da empresa Ericsson. As perspectivas da literatura revista, permitiram ao autor desenvolver um processo e analisar sobre como são tomadas as decisões e quais as opções e situações com que os gestores se debatem quando envolvidos num processo de integração. A especificidade e significância do objecto de estudo deste caso, sendo as amostras empresas de serviços e cujo valor é gerado por activos de conhecimento e habilidades, aumentam a necessidade de avaliar os impactos das relações, estruturas e comportamentos das organizações. Esta dissertação endereça a realidade do caso Ericsson e deriva uma relação entre cultura, estratégia, rejuvenescimento das organizações e impactos sobre a decisão, revê as opções tomadas e propõe recomendações sobre qual o modelo de integração mais adequado.

Palavras-chave: Fusões e Aquisições, Modelos de integração; Estratégia; Serviços

JEL: 0L86 - L - Industrial Organization; L8 - Industry Studies: Services; L86 - Information and Internet Services; Computer Software.

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Acknowledgements

This assignment was an opportunity to review what other delivery systems integrations units are pursuing, their concerns, their goals, their perceptions and their plans. It has been a rewarding experience. To connect the academic theories of scholars, subject matter experts and renowned consulting firms with the factual feedback from field experiences and observations were ideal for the learning process. Because of what I have learned comes from ISCTE and Ericsson it is to these organizations that I owe a major debt of gratitude. The conversations and enthusiastic debates which I have been thankful to be part of demand a special word of appreciation to Dr. Domingos Ferreira for ensuring that I had structured and access to relevant literature, for supporting and guiding me in demystifying many of the concepts and to Dr. Mats Lindelöw whose availability, active support and willingness to trust in me to take on this assignment, gave me the fantastic opportunity to ask in first hand to senior managers on their experiences, have access to sensible privileged information, would otherwise been difficult to cultivate and strengthen my understanding of a part of the immense subject of M&A. I wish to thank my team, Maria João Esteves, Pedro Paulo Silva, Jaime Gomes, Pedro Tavares Marques, Márcio Costa, Nuno Miguel Brito and Luis Martinho for their comprehension during the course of the assignment, to Claudio Monteiro on his thoughtful support, to Eduardo Marto and Helder Palhas for the time I needed to allocate to conduct the research, to Hans-Erhard Reiter, to Magnus Rahm, Edmilson Toledo, Hector Prieto, Constantino Villar, Kari Wessel Wassgren, David Fontan, Patrick Carson, Zoltan Paska, Henrik Stemo, Thomas Kinnman, Charlotta Sund, Olivier Jeantils, Javier Cano, Alfonso Cantalapiedra, Bjorn Ekstrom, Carlos Barrios, Rodolfo Correia, Nuno Pacheco, Miguel Guedes, Isac Palma, Paul Basquille, Pedro Brito, Timothy Kent, Naoe Nagasawa, and a few others who have been part and contributed to the elaboration of this paper.

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1 Executive summary

Any of the integration models can be the best or the worst integration model. The success of the integration is mostly *affected by consistency and discipline in execution of what ultimately has been the managerial choice*. Management choice is defined by the strategy to undertake and a firm can only access those strategies that it is organized to undertake. Structure drives behavior, which determines culture. The center for the decisions of the subject for identifying the best integration model all stand with the leader. Leadership is centerfold for determining the appropriate integration model.

Having an empowered leader to conduct the acquisitions, allowed to influence and craft organization structures, to determine the ways of working in order and nurture the acquisitions with enough effort to achieve on the expected value are fundamental requirements to hold, independently of any integration model to chose. The samples studied have all undergone through some deal of complexities which can be overcome by having higher involvement and commitment by the headquarters of Ericsson, voiced through the leader identified for the task.

The author reviewed that the ideal approach of bearing a symbiotic approach by which strategic interdependence provides the added value that is possible to create when the two firms are combined, while at the same time integration process is able to protect and preserve the organizational autonomy on the asset to transfer without destruction of the actual value. Success in achieving symbiotic integrations is considered a substantial challenge.

The main driver for acquisitions of Systems integrations firms have been people, knowledge, skills and abilities are the assets to harness, nevertheless it's only through careful consideration and assessment of these that any integration model decision should take place.

Besides the ideal symbiotic scenario, there are two standpoints within Ericsson. One promoting a need for a new Culture, new Brand, Image and Reputation, processes, sales, all of which too large challenge given the history and rooted practices and defend an idea that it may only achieved through a *preservation* integration model. While the other view, sustain the same history that have created Ericsson Brand image and reputation, the assets, the size, sturdiness therefore it is the others that need to be made like Ericsson, promoting an absorption integration model.

Both cases they have been has successful has they have failed to leverage on the full potential to create value. However the common evidences' gathered in this paper, stand that the current Ericsson structure and overhead spreading costs (support systems, processes, sales approach) hinders the ability to address the Systems Integration business, the lack of relations with CIO, the perception of the market do not consider Ericsson a relevant player in Systems integration and services culture which isn't the one that will enable to meet the massive scale opportunities within the IS/IT sector.

The incorporation of the theoretical assessment and analysis tools as the methodology to derive a conclusion, place the M&A experts (Weston, Gaughan and others), consideration of economical principles (Clark and others), strategy (Porter, Pavitt, Bartleltt, Kim, Mauborgne and other) views, the structure (Mintzberg, Bartlett), Integration models (Jemison, Haspeslagh), Culture (Schein, Hofstede, Hoecklin, Trompenaars and other), through combined set of methods (Porter, Kim, Ishikawa, Ulwick) in an attempt to provide solution scenarios to respond to the Ericsson problem. Clearly, the traditional model one approach meets all, or the integration approach to make them like us does not solve the Ericsson problem. As Jemison and Haspeslagh have stated "there isn't one best way to integrate each acquisition, good performance is also affected by consistency and discipline in execution of what ultimately has been the managerial choice". The author contributes to the M&A literature by examining the interrelationships between the criteria to context the Ericsson case, through the schematic process of organization of the views and feedback of the experiences of senior management interviewees and based on these develop recommendations for practices that should take place to achieve expected value that comprise the activity of Mergers and acquisitions.

To a positive outlook where systems integration is an area to meet, then the recommendations included in this paper go through an examination for execution of scenarios such has (1) Ericsson conducting a considerable investment in a large acquisition of a market leader, or (2) through the structuring of an Ericsson Consulting Systems Integration company focused P&L operating independently and continuing to foster and grow through the local acquisitions, and (3) regardeless of the scenario reviewed, to become a referenced player in the Systems Integration IS/IT market, such activity must be supported by strategic alliances and partnerships.

2 Introduction

All over the world market consolidation and merger and acquisitions is the the prime activity in all sectors to achieve growth. Firms by conducting this activity allow them to quickly gain necessary expertise, offer end-to-end services, vertical, horizontal integrations to supply solutions and product more efficiently, to take advantage of niche markets, always with an aim either to increase market share, reduce competition, and improve efficiency, size, synergies or all of the above.

The IS/IT market is no different. The author's assignment within Ericsson in Portugal bears the responsibility and function for the delivery of Systems Integration activities within the telecom, IS/IT arena. Related to the professional activity, it is requested and expected to define and establish the most suitable and appropriate strategies for the delivery, development and innovation activities in this business and resources to meet delivery objectives.

To acquire, to merge, to create, to increase head count, to joint venture, form alliances, to operate as a technological cluster or through a more conservative approach hybrid/mix of the previous, these are some of the available options to ensure the Systems Integration services strategy and business goals are met.

Despite the fact of the advantages and benefits of each available option, the multinationals (MNEs), specifically the one covered by the author, have considered and followed the several approaches described above in many different cases, nevertheless the acquisition activity has been considered of higher interest, given the quick wins and returns in comparison to the remaining alternatives. This option does raise some questions, specifically when it comes to the acquiring services related companies, where their assets are PEOPLE, KNOWLEDGE and or RELATIONS. Questions such as:

- Is this option actually beneficial medium to long term?
- What's the consolidation costs involved?
- Are there cultural, values, and organizational behaviors clash within services?

- What measures, what mechanisms are considered do prevent the resources (from the acquired company) to leave and join another company?
- What does prevent the founders of the acquired company (that have the trust and confidence of their staff) to sell and cash in, just to create a new services company, exactly the same under a different name/legal entity and "get" all employees to the new company? Is it due individual contract agreements between founders and acquiring company? Is it due to the fact the acquisition process considers variable more interesting part for the acquired founders to keep on performing and exceeding upon the business case?
- What does prevent the directors/managers, which were reporting to the founders, from leaving and getting the confidence of their direct reporting staff to join them (management buyout)? Lack of entrepreneurship, lack of investment, security of their jobs?
- What are the valuation criteria to acquire a services company? What assets is the acquirer really acquiring (bundled head count, customer relationships, processes, flexible cost structures)?
- How different is it from head hunting the key resources as opposed to buying the entire services company?
- Today's market and labor law in our country are moving from collective to individual contracts, what are the implications?
- What criteria are essential to ensure an acquisition of a services company to successfully take place?
- How do we measure the success?

The views of the author sustain important value, which is the consideration for the most important asset of any company in the world or in any the industry is the one that is not visible in P&L statements – *People* (Roengpithya, 2008). Any company that initiates a process of M&A of a services company, discussing about people, skills, competences and leveraging on their capabilities to address a particular market opportunity during a certain timeframe, it must be thoughtfully analyzed that the opportunity has a life cycle and the fact is that people also have a professional life cycle which can be quite different from the competence, skills and abilities life cycle, perhaps their skill set can be considered as a soft goods with short life cycles, however the people will still be there. The means to achieve success and measuring the overall performance of the decision to conduct the acquisition must consider the long term perspective and the capability of the acquirer continue to leverage and provide path to the staff involved. Ericsson being a centenary company, “tycoon” and reference within the telecom industry has proven to be a case of success.

In economic and financial terms, to consider the need to increase sales, market share, and reduce costs are all numbers and actions that stakeholders are pressured and required to take. It is within our human nature and it is the paradox to societies and sense of community, groups and corporate cultures with the fact there will be competition. Competition increases the pressure, demands quick returns, increases needs for efficiency and swift assertive management decisions, with a tendency for removing the human aspect of things to be rational and justify the ends of a greater good, define the basic language of firms, ventures or endeavors. What have always to remind ourselves is to that any of the challenges Ericsson has to address, will require assets and resources.

Considering the above and in a scenario of M&A to generate value, decisions taken to have the assets, to be a goal, an acquisition, it is quite important to provide the necessary attention to the long term perspective of which “assets” are to be considered and the how these will allow the creation of value, most especially when those acquisitions are referring to Services companies in which the value is created with and by the people.

In synthesis the essence of the overall perspective and debate on the problems of the delivery services companies and when comparing to companies where acquisitions took place to gain access to an asset which materialize into another element in the acquirer portfolio, the M&A process related to services companies must be reviewed and assessed focusing on the most subjective and intangible components rather than the pure economic ones. Success of services delivery groups take in consideration the people, the attitudes, the culture, the adaptability and evolution, the change and the intransience capacity are the key to assess performance instead of just “easier” quantitative economical point of view of past performance indicators.

2.1 Problem Description

These and other related questions were subject of continuous reflection and discussion by the author and within the Ericsson workgroups, in what regards acquisitions of services companies. In order to scope further the area of development of this study given the latitude that can be brought to analysis in this topic, together with the coordinator from Ericsson and with the support of the tutor, the author decided to focus on few key issues and group the areas of study of the following:

1. Are the traditional business financial valuation criteria (asset valuation, historical earnings valuation, future maintainable earnings valuation, relative valuation, discounted cash flow (DCF) valuation) the most appropriate for evaluating services companies? Are there any other indicators that should be considered, that can be qualified and quantified to assess the past performance and future capability of the services company?
2. As preparatory work to assess a services company what key considerations and which risks should be identified? By layer, by asset, by organization, by results.
3. The decision go-no-go to acquire is also based on the previous and mitigation of the risks. What strategies, tactics, operational details must take place to ensure a successful activity, meaning to retain the key talents?
4. Ericsson has acquired several services companies in France, Australia, Spain and Sweden. In some cases Ericsson has decided to go full integration in other cases Ericsson has decided to maintain independence, other a middle ground, in each case there were advantages and disadvantages, the questions being raised now are, “what is the best integration model, when to go full integration or maintain independence?” Why in some cases were a model chosen? Are the resources – people, supporting and ensuring a better performance over the other?

The 1st study item would be able to address some concerns on the valuation criteria when performing the due diligence process and benchmarking necessities of services companies. Nevertheless knowledge, skills and abilities are rapidly changing with the market demands and are only one of the key success factors (processes, tools, culture and other are some of the items for benchmarking) when evaluating a company. Given today's highly volatile industry, where still economics, actual factual returns, net values, margins, utilization, market share, provide the quantitative measures and criteria to support managers in the decision to conduct an acquisition process. It is an interesting item of study, however there other study items which have supersede this particular item.

The 2nd and the 3rd are or were already subject of extensive research both internal to Ericsson and by entities or individuals external to Ericsson, such as renowned consulting firms, subject matter experts or scholars with readily and available articles and studies on the Mergers and Acquisitions practices, to revisit the elements included in those analysis and ponder upon new valuation models and or filtering the key elements is also an exercise of interest.

Given the priorities and interest of those involved in Ericsson practices, for the study of this paper, the author has considered and agreed with the coordinators and tutors that it was focused the research of the 4th item described above.

Reviewing and analyzing the integration models that shall be used to reach the objective of the acquisition. Responding to the question if there is a better model or which model to which situation, poses several questions.

In this case study to reach a conclusion and recommendations, in order to achieve an analysis of the several services companies acquired by Ericsson around the world, the methodology requires flexibility, so that the author can identify the common items and variables of each process.

Given the geographical dispersion of the headquarters for each of the acquired firms, there were plenty of cultural related aspects which lead to impacts on the conclusions found and/or to perhaps a concern at the beginning of the analysis of the problem, of inability to conclude accurately and scientifically on the correlation of the variables as there may just be too few samples of the exact nature to relate in the analysis.

Other aspects can be related with the profiling of these samples, where in each case the size (market share, net sales, number of employees), margins, the processes, nationality and other intangible measures of variables, besides the financial and economical aspects of the acquired company, may only provide an indication for that particular example, impeding us for inferring for the whole or even promoting a conclusion which is applicable to any example.

2.2 Approach to the problem

In synthesis, the problem at hands involves a subjective and objective approach as there are multitudes of details and depth include. To approach this problem it requires several methodologies to correlate the different variables. Access to the right people and embedding the experiences of those involved in the acquisitions, reviewing papers, books and articles and recommendations identified in the bibliography are means available to conduct the analysis and study to the problem.

For each of these items the following structure the author has planned, agreed and defined to address the study, through the following approach:

- Determine and restrict the scope of this assessment to a single MNE - Ericsson. Include as samples the acquired companies within Systems integration area. Focus on the case study of Ericsson, but consider implications and opportunities to infer the world telecom market as Ericsson is the market leader within the Telecom infrastructure sector and a reference within the industry.
- Identify and select through the recommended reading (papers, books, internet) the relevant subjects to support the creation and review of the problem (whether there are already studies conducted and theories to sustain and support a decision on the integration model). To bear a reliable

information background to support the analysis and the set of recommendations.

- Identification of the “right” individuals that have been part of the Ericsson acquisitions both from the acquirer as well as form the acquired point of view. Creation relevant items to formulate hypothesis and a brief and objective questionnaire for those people in Ericsson (key stakeholders) and those acquired companies (3-6 companies acquired). Perspectives balanced when reviewing the subjective elements and views of the integration process that took place.
- Given the nature of the strategy development practices, conduct and create a model that enables the review of all gathered materials (objective and subjective) to relate the findings and if possible a recommendation for the integration model that should chosen for the Ericsson scenario.

2.3 Ericsson Acquisitions

To depict the acquisitions scenario in this case-study, Illustration 1 represents a map of the organizational structure of Ericsson, differentiating the corporate, from the market units (each market unit can be a set of different countries, hence markets), managed by Business units (which then can include different practice areas) and the stakeholders (key decision makers, where these may be vice-presidents of Market Units, to Directors of practices and segments or managers responsible for businesses).

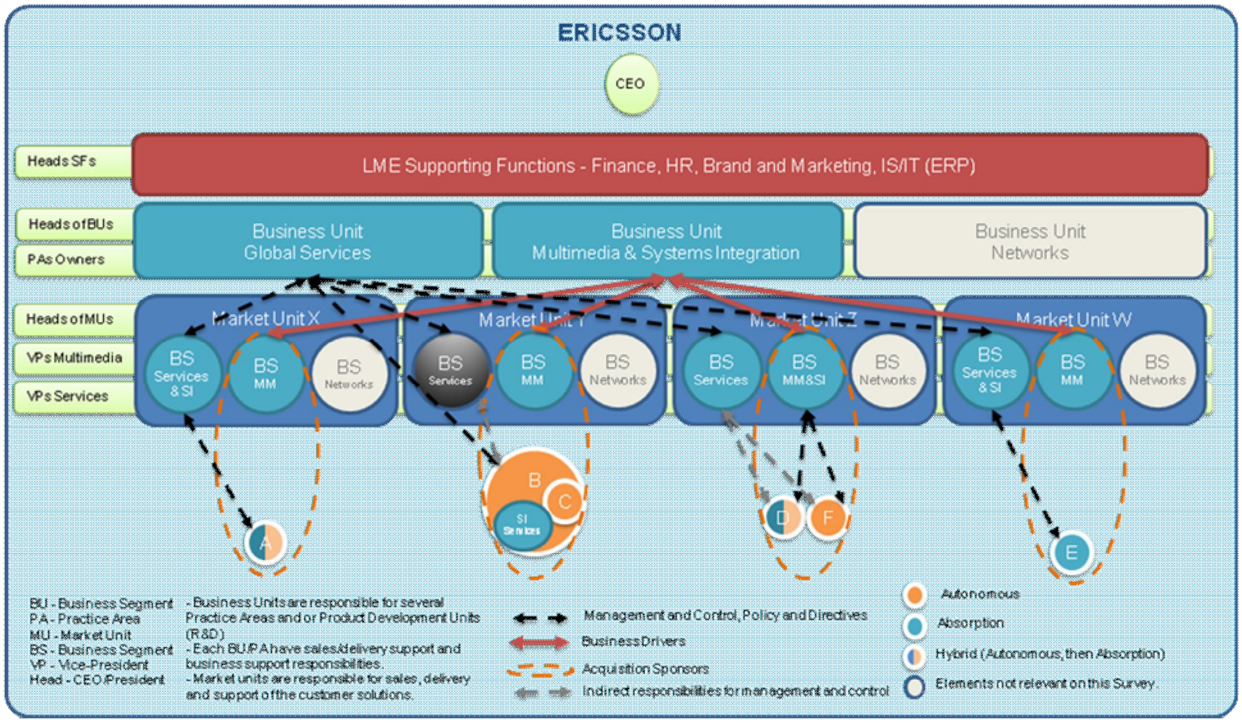

Illustration 1 - Acquisitions Map

The legend included includes the variety of integration models chosen in Ericsson. To simplify the map, the author has considered two of the models as integration approaches (Haspeslagh, Jemison, 1991:145) one being Preservation or autonomy, meaning the decision was taken to maintain high level of organizational autonomy and the other, at the opposite corner, Absorption, high need of strategic interdependence and low organizational autonomy. In generic simplified terms the samples are:

- Company A - Integration model chosen by Ericsson Absorption - size of the company 40-50 people - Overall perception by Ericsson Failure acquisition/integration (not based/supported on facts)
- Company B - Integration model chosen by Ericsson Autonomy - size of the company 15-20 people - Overall perception by Ericsson very successful acquisition/integration (not based/supported on facts)
- Company C - Integration model chosen by Ericsson Autonomy - size of the company 60-80 people - Overall perception by Ericsson very successful acquisition/integration (not based/supported on facts)
- Company D - Integration model chosen by Ericsson Autonomy (after one year, move to Absorption) - size of the company 120-150 people (less after

lay-off) - Overall perception by Ericsson successful acquisition/integration (not based/supported on facts)

- Company E - Integration model chosen by Ericsson Absorption - size of the company 20-30 people - Overall perception by Ericsson very successful acquisition/integration (not based/supported on facts)

Each of the cases is a specific example of a strategy designed and defined to meet the goal of the acquisition. What is interesting to put in perspective of this map, are the involvement and interactions between two different segments (Services and Multimedia). The interactions and relations that require planning and impact the organizational structure of the involved market units, the decisions, interests of the corresponding stakeholders and steering committees defined for each case to handle the acquisition, demanding leadership, communication, business accountability, speed and operational readiness. Also relevant to refer is the fact that there is the low involvement of the Network Segment. To leverage on the acquired firm capabilities, the Business segment responsible at the market unit is in many cases the owner and driver of the process, which supports the view of a clear segmentation and responsibilities definition for the acquisitions.

Other aspects which are relevant to raise are related to the size of each of the acquired firms and their position in the market prior to the acquisition process. Given the small size of the acquired, all, in comparison to Ericsson Services business have a disproportional balance in regards to power and all are well perceived in the market as high potential firms within the systems integration arena.

2.4 Case-Study Components

This paper is divided in 6 main sections and each section will include a number of components.

Section One covered the executive summary of the case study.

Section Two covers an Introduction to the problem, context establishment around the systems integration delivery reality and the implications to integration model to follow.

Section three includes the analysis of the literature gathered and the considerations of Ericsson environment for positioning of the overall situation in reference to the researches conclusions of the several authors.

Section four contains an explanation of the research methodology used in the course of this assignment.

Section five reviews the results from the M&A survey findings and includes the connection with the literature referenced.

Section six the analysis of the whole research with the recommendations for the Ericsson case.

Bibliography, References, Limitations and Open topics for development are included at the end of this paper.

3 M&A Literature References

In this section a review and analysis of the recommended literature is covered. The aim is to provide more elements of discussion, views and experiences from the subject matter experts, either from purely scientific and academic, from a professional experience and also those that have relied more on empirical evidences. Given the nature, the object of this problem, several approaches have been planned therefore the referenced material shall also consider the various views.

The structure, the author decided to cover the available literature through an entrepreneurial analogy addressing the “Market”, the “Management”, the “Magic” and “Money” perspectives (Banha, 2000).

This section covers 4 components. The first includes introductory component on the subject growth of M&A as an option to address a business strategy, what does the market tell us. A second component with a summary focused on the vastly debated with various available set of articles, covering the subject - Strategy and Structure. In this paper the author provides insights on the intrinsically connection of them and therefore important to be considered when planning the Integration model to apply in an acquisition and or in the planning of it. The third component covering topics of Culture and People – businesses are made of people, as the Ericsson CEO Carl-Henric Svanberg stands “Culture will defeat strategy every time”, the people which make the magic happen. At the last point “the why” and “the how” covering the Value component of any M&A and the means, plans to achieve the 2+2=5 synergy phenomenon, in the end its so much more than just money since it is all about *value*.

Even though the full analysis is not included in this section, for each of the components, a view of the Ericsson case is included for further contextualization. In section 6, supported by the findings of the research and analysis covered in this section, a debate with an opinion is included on means, and the how to address the subject.

3.1 Preliminary analysis based on subject matter experts

Weston et all (2004) start by pointing that "…economic role of M&A is to assist in achieving or maintaining their competitive advantage by anticipating to change", Gaughan (2007) "…M&A continues to experience dramatic growth", Haspeslagh and Jemison (2001) "…modern economy is being transformed by M&A.", all authors have the same in common M&A is the tactical option to achieve a common goal to most companies in any industry, which is to maintain or increase competitiveness of a business.

Mergers and acquisitions continue to be an option for firms to meet their goals. It is a cyclic situation between expansion and contractions which follows the movements of the economic turns and revolution ages. We are now at 5^{th} wave (Gaughan 2007) and the pace of mergers continues to feature unprecedented volume in business. According to the National Venture Capital Association and Thomson Reuters the total number of M&A deals in US for Q2 2009 is of more than 60 and in January 2009 alone this volume was of $110 billion. The report says that the increased volume is *"driven, to a large extent, by those US industry companies that are fortunate to be in sound financial position… money seeking the 'bottom"*. It is often at the 'bottom' that the best opportunities for long-term value creation arise, because one of the most important factors in the success of any investment is the price paid.

Reliable, sustainable business case and company assessments begin even before any due diligence process (Accenture, 2004), to ensure the expected value and the benefits that are to be considered are able to meet the projected performance and synergies.

Planning the type of acquisition and establishing a company will determine the type of M&A to take place. Weston (2004:6), Gaughan (2007:13), Jemison and Haspeslagh (1991) and others define the types of M&A as horizontal, vertical, conglomerate, investment, financial, managerial, concentric companies and others. For this paper purpose it can be categorized by *horizontal* when a firm acquires another competing firm. *Vertical,* when a company combines acquires to its seller or to its buyer, or *conglomerate* which occurs when companies are not competitors and do not have a buyer-seller relationship (Gaughan, 2007).

Firms seeking growth, to expand are faced with the question whether to continue on internal growth or growth through the M&A (Weston, 2004:118, Gaughan 2007:117). The advantages of an acquisition are clearly of faster access to market but also bring a lot of uncertainties, compared with the slower internal growth which may prevent the company from meeting the window of opportunity.

In many cases the growth through M&A also means to diversify and to reduce dependencies on existing activities. By considering if the company will grow within its industry or outside its industry will also determine the success of the acquisition decision (Morck, 1990), which is supported by Gaughan stating that*"The track record of related acquisitions is significant better than that of unrelated acquisitions."*

The Ericsson examples have considered a growth strategy, to acquire within the same industry, or could the acquisitions be considered outside the Ericsson industry?
Even though Ericsson is within the technology sector, the acquisitions that took place can still be seen as a diversification move, since these were of companies within the IS/IT services delivery which is part of the industry but not entirely related to the traditional telecom industry where Ericsson currently operates. Could it be possible that given the Ericsson portfolio the depth and number of solutions covered, that can be considered as that of a conglomerate company holding three "companies" represented by the three segments respectively, in which none of the segments had until recently been focused on delivering services in an eco-system of multivendor and Systems Integration.

In the Annual Ericsson Report (2008) Convergence and network transformation are in focus, *"placing greater emphasis on smarter networks and bundled service offerings, operators have accelerated the conversion to all-IP broadband networks with increased deployments of broadband access, routing and transmission along with next generation service delivery and revenue management systems to enable a better service to main customer segments – business, consumer and wholesale – as each requires a different and varying mix of fixed, mobile and converged services."* Operators are the main customers of Ericsson, the convergence poses an *attractive* *opportunity* to take part of, given the items covered, through a set of acquisitions (Marconi - transmission, Redback – IP access, Trandberg – IPTV products, LHS – Billing systems, Drutt – Service delivery platforms, Entrisphere – FTTx broadband Access and other).

It is not easy and clear to consider if these are diversification moves between industries when in fact we are at point in the industries where the IT world is merging into the telecom world and vice versa. The set of services provided by each industry are now competing (e.g. Voice over traditional telephony circuit-switch systems vs Voice over Internet Protocol), while before there was a clear frontier between the activities of IS/IT and traditional telecom infrastructure suppliers the convergence between the two have raised a lot of questions and given rise to greyer areas on where does the frontier lie.

In summary, understanding that M&A is the highest used option in economy today, conducting an acquisition within the related industry of the acquirer is the fastest way to growth and that has increased chances and rate of success. As a diversification or even as a natural part of the evolution of the business (given the technological breakthroughs and necessity to stay ahead) raise fundamental questions, what is the strategy and how to achieve it within Ericsson. This is covered next.

3.2 Strategy, Structure and M&A Integration Models Decisions

Chandler (1998) defends in his thesis that "*Structure follows Strategy*" he described, "*corporate strategy as the determination of long-term goals and objectives, the adoption of courses of action and associated allocation of resources required to achieve goals*" and he defined structure as the "*design of the organization through which strategy is administered*", where "*changes in an organization's strategy led to new administrative problems which, in turn, required a new or refashioned structure for the successful implementation of the new strategy*".

3.2.1 Strategy

Services strategy, Multimedia and Systems integration strategy, product based strategy, costumer sales strategy all are formulated in different ways and have to do with the long term perspective taking in consideration the short term decisions and actions. Each have specific aspects and account for different issues to become a successful strategy.

While in flourishing markets where technological breakthroughs and the provisioning of mobile services have created a demand from consumers, the suppliers of networks and companies like Ericsson, seller of telecom equipment went on a rise following an opportunity of an *attractive industry* (Porter, 1985) with high demands for network infrastructure equipment. Ericsson like other competitors has invested in new production facilities to meet this demand. This has definitely lead to the *acceleration principle* (Clark, 1968) where the whole industry lived through exultant period, marveled with the potential and size of returns that mobile and internet industry were providing. This became even more attractive with the later recognized "dot.com bubble" where mobility, internet, IT services were the digital revolution

Excluding the managed services practice within the Ericsson global services segment the services, the portfolio and set of activities are still very dependent upon the delivery of infrastructure – durable goods[1]. As mentioned by Weston (2004) and others on "*Why are durable goods orders so important?*", since these represent the orders for many businesses good manufacturers, which will hold off making their purchases if they aren't confident in the economy or because the market is already covered and there is a decline in demand. The consequence of declining orders means declining production, consequently declining delivery of services following the entire delivery chain.

It may seem that is the empirical evidence and the case of many businesses where there is a struggle between ensuring sales and numbers, especially when industries

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[1] In economics, a durable good or a hard good is a good which does not quickly wear out, or more specifically, it yields services or utility over time rather than being completely used up when used once.

face a economic downturns, where there is no choice but setup product and solution strategies which follow not only *planned obsolescence* (Bernard, 1932) practice of artificially shortening product lifecycles in order to influence the buying patterns of consumers in favor of manufacturers (Stevens, 1954) but also to focus on *perceived obsolescence the part of planned obsolescence that refers to "desirability"*(Leonard, 2007).

To formulate a strategy to maintain the company's performance from previous high stakes and attractive industry from 2000 (Ericsson shares peaked in March 3r 2000 at 825,3SEK), with growth objectives of net sales, market share, margins hence high returns on earnings per share are the challenge for many companies including Ericsson.

The vision, mission and culture of a company, as in many other business aim at economic sustainability and creation of value. In Ericsson it is all of the previous and to provide benefits and advantages to the world economy and efficiency gains which will allow for a better, sounder and environment for all of us where the demand durable and environmentally friendly products that have a timeless applicability. To create a better world – an all communicating world.

To bear the above in mind while to reduce the dependence of the durable goods fluctuations, several alternatives have been considered, decisions have been followed to meet these objectives. Cornerstones such as Innovation, Reuse and sustainability are among the priorities:

- Innovation and new market opportunities and diversification of the portfolio – Business Segement Multimedia
- Expansion of the Services vertical and horizontal – Business Segment Services
- Development and growth of business within nondurable goods or softgoods, software practice – Business Segement Networks

As described in the Ericsson Annual Report (2008)

"Ericsson strategy is to:

- *excel in network infrastructure,*
- *expand in services, and*
- *establish a position in multimedia solutions*

To make people's lives easier and richer, provide affordable communication for all and enable new ways to do business. Successful execution of the strategy is built on (1) addressing customer needs; (2) innovation for technology leadership and (3) operational excellence in all we do."

3.2.2 Multimedia and Systems Integration Services Strategy

Given the strategic decisions, Mergers and Acquisitions (M&A) were among the available and selected options to tactics to meet the strategy setup by corporate and the segments. In some cases the acquisitions have allowed Ericsson to meet more than one strategic decision, taking part of the synergies, allowing meeting the potential of the market opportunities, diversifying, expanding, while reducing dependence upon the legacy infrastructure sales.

Systems Integration business being one of the areas to develop, was defined as an opportunity where Ericsson can be able to "*…integrate equipment from <u>multiple suppliers</u> and handle technology change programs, as well as to <u>design and integrate new solutions</u>… …operators who introduce multimedia services or face challenging technology transformations are asking us to serve as a <u>prime integrator</u>, i.e. acting as the primary interface and program manager, ensuring successful deployment of the total solution"* (Ericsson Annual Report, 2008).

From the services strategy, specifically addressing the Systems Integration arena we have several challenges. Those are:

- To expand in services – planning and addressing the area of multivendor (where the main competences lye within Ericsson infrastructure) managing programs (turnkey deliveries have been on Ericsson products, services being a mean to an end), being accountable for prime integrator roles for solutions (managing partners and relations raise the bar), products which may or may not be included in the Ericsson portfolio.

- To establish a position – Ericsson is an infrastructure supplier. Something the company should be proud of the position it has established, the respect from competitors and those new entrants which have Ericsson as a best practice of management, sustainability and longiviety. One of the remarks a CEO of one of the companies of the Vodafone group has made recently when was stepping down in September 2009, in more than one occasion he stated *"Ericsson has been our preferred infrastructure supplier and our key partner for the growth of our business"*. There were no references to solutions, to multimedia, the perception is that even after all the interactions handled in the recent past, in the mind of the CEO Ericsson is an *infrastructure supplier*.

The implications of these are notorious in the market and the additional challenge is to change this perception to a flexible integration services company for multivendor solutions without the implications of becoming bias while choosing the solution. The acquisitions of Systems Integration deliveryfirms are a solution to meet this challenge. The acquired Systems integrations companies:

- Have the brand, image and reputation in the market of the SI, IS/IT positioning
- Have the knowledge, skills and abilities required to hunt the opportunities in multivendor eco-systems.
- Have the experiences and the customer references
- Have the customer intimacy
- Have the flexibility and agility to quickly adapt to market trends
- May not have the same culture, vision, mission, values as Ericsson
- May not have the same processes or corporate governance as Ericsson
- May not have the same size, volume (sales, resources, investment, etc), history as Ericsson
- May not have the dependence of infrastructure products
- May not have the security and financial sturdiness and resilience of Ericsson

The fact is that many people question *"if this is the case why don't we develop those competences internally? Why can't we recruit bulk set of competences and leverage on them? Given the fact that it is assumed that Ericsson does have all it takes to get the Systems integration business"* These questions have a direct dependency upon the decision of the integration model when choosing a tactical option of conducting an M&A process.

Why not develop the business internally? It is an available option, as Weston (2004) and Gaughan (2007) refer, creating a new focus area from the core business through internal growth are limited options given the window of opportunity, M&A are faster. However the key success factors to a new endeavor which differentiate from the core business practices are *risk*, *uncertainty*, *freshness* and *relevance* (Covin, 1997). A new internal project can be a new organization or a system, framework, internal project created to be compatible with the new requirements given the *attractiveness* of the opportunity (e.g. systems integration in multivendor environments) which is still of high risk given the amount of new variables (right competence, right attitude, others) but with a high potential of growth and an ability for those goals in the Systems integration strategy.

Given the fact that in this paper specifically addresses the services area, the relationship between these approaches on internal development has been subject of great debate, as researched by Gary Hamel, C.K. Prahalad (1990) and Dorothy Leonard Barton (1995) on skills, particularly when it comes to key competences and the impact of rigid competences. As Prahalad (1990) puts it, *"…the sustainable competitive advantage of firms resides not on products but in key competences"*. Firms become reliant on their key talents, an aspect which has been raised by Barton (1995) on that respect is that in large MNEs the *key competences* can also turn into *rigid* when "*the existing competences become too dominant*". The supremacy of these competences is due to direct dependency of high number of requests or to meet fast growth in demand, or even that for managers they reliant, comfortable and familiar to meet the requests without being challenged. Barton (1995) arguments that "*consequently new important competences are underestimated or even not* *considered… too many are the examples of rigid competences that are so embedded in organizations, that for the new adoption the only option is through continues changes at the top level management."*

Ericsson can then consider that to conduct the internal growth not only will there exist necessarily frictions of demanding new competences, as well the ability from managers to be challenged, and pursue higher risks than they are not used to. The term *intrapreneurship* is therefore referenced to the needs to determine the activity. It is not only through the entrepreneurial behavior that objectives will be met it requires that the whole organization supports, commits to meeting the objectives and that investments, change (sales, delivery, processes), habits and willingness to go beyond the *rigid* dominant set of competences which make the comfortable zone of managers in their day-to-day activities in the company. Is it a new culture, new attitude perhaps? Or is it the same culture, but with different processes, different mindsets? Section 3.3 will cover the culture related aspects.

There are several examples of companies which have decided over a certain model acquisitions others chose internal growth. Cisco is the typical case study (Gaughan, 2007) has pursued and quite successfully followed a series of acquisitions which have met their needs, while for instance Toyota[2], a company which for years studied Ford's and GM's manufacturing practices, used its organic internal growth strategy to steadily take over the market share. Both are successful examples that each strategy can be successful, the decision on which to follow is for the firm to take. The author includes further ahead the details and the impacts of the strategic decisions on the integration models to be chosen. Details of the integration models are on section 3.2.4.

3.2.3 Structure

Ericsson current structure of the organization can be observed through an illustrative and over-simplified version in Illustration 1, where it is clearly visible the matrix and multidimensional form with divisions, markets, countries, customers and transversal functions to support the business. This multidimensional organization implies the

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[2] Case Study - International Diversification in Automobile Industry.

need for specific requirements, on security policies, synergies, legal, ethics, and procedures, cultural and on how transactions are accounted and recorded in ERP systems (SAP) and specifically in what regards the strategy of the company to meet the vision, mission, and the goals to be met over a medium to long period of time.

A substantial number of articles cover the structure related aspects, in this paper the reference to Canadian author Mintzberg (1979) which has designed a series of models and references of organizations which fit the Ericsson organization under the *Divisional Model* which is a decentralized organic form to adapt to the local environment challenges (the case of the Market Units), which are part or have included bigger organizations and include specialization of semi-independent units (Business Segments) and take advantage of the central supporting functions (corporate). Mintzberg describes the strongest points of this model has the ability to capture specific regional and local opportunities as long as these are supported by the central corporate, and as weak points the internal frictions between divisions hungering for attention of the headquarters.

"Acquisitions are strategic decisions that can both reinforce and change the firm's direction. But ensuring that acquisitions decisions are consistent with strategy is difficult…" (Jemison and Haspeslagh, 1991:9) and *"Mergers and acquisitions require changes in the organization structure of a firm"* (Weston 2004:122). Some of these authors hold that the *"structure determines strategy – the firm can access only those strategies that it is organized to undertake"* and Weston (2004) views that there is a *feedback relationship* between strategy and structure.

When Ericsson has to address new profiles, identifies some resistance which require changes at the top level, it becomes a relevant consideration the decision of choosing an M&A process over internal growth. Additionally, the division, group, person, depending on their position in the structure of the organization and its capability to influence the change in structure has determinant impacts in the flow while conducting the acquisition. Assessing who or where did the acquisition decision started is relevant (e.g. if it started in the market unit level (MU Head) or is it a demand from the business segment (VP) or even was it a corporate decision (CEO)) as there will be influences and ability to promote the necessary structural changes at different levels in order to meet the strategy. As Mintzberg identified, in divisional models there will be attritions in this process and may well there be disagreements in the means to restructure in a manner. The split of functions in Ericsson between Market units, business segments and corporate are a typical example of the multitude of interactions which will occur if not all share the same understanding. In the case study further ahead the author reviews the samples with evidences from the different scenarios.

3.2.3.1 Structure drives behavior

Structure includes roles and responsibilities, the rules and policies that drive and limit people's actions, the environment, the physical or mental pressure of the work itself, and the internal dynamics of the work process of firms. The results from people's actions and behaviors are strongly influenced by the surrounding environment. Ray (2006:202) and Reinier (2008) presented a concept that "…*structure drives behaviors, and structures are crafted by leaders.* The leaders culture, definition of the strategy, crafting the changes in the structure to meet the strategy, to drive behaviors are interdependent and of significance in impacts of achievement of successful M&A processes.

3.2.4 M&A Integration Models

From strategy to structure, Ericsson needs to assess which model and structure should then be defined for the acquired firm while integrating in the acquirer company and achieve the value. Jemison and Haspeslagh (1991) defined the key dimensions in acquisition integration. The firm's approach to integration can be understood by considering two dimensions of the acquisition – *its relationship to the acquiring firm and the way in which value is expected to be created.* The first part is directly related with nature of *interdependence* and the other associated with the need to *preserve* intact the acquired strategic capabilities after the acquisition (Haspeslagh and Farquhar, 1987).

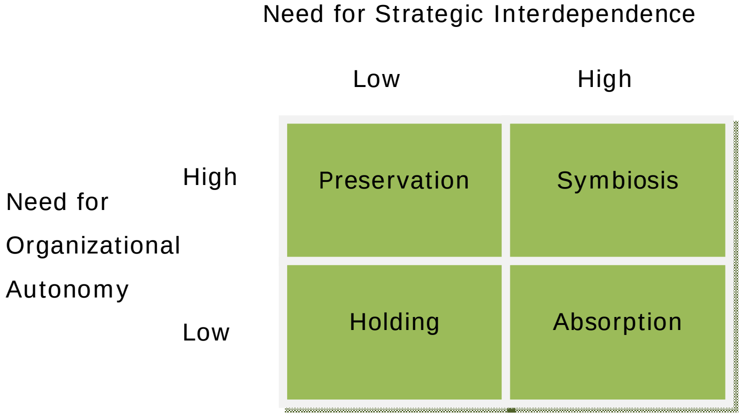

Illustration 2- Types of Acquisition Integration approaches

Strategic interdependence refers to value that is possible to create when the two firms are combined, value which does not exist if the firms remain operating separately. The organizational autonomy has to do with the strategic capability transfer as the precursor to value creation. It is vital to preserve the strategic capability that is to be transferred. Neglecting the boundaries and requirements that autonomy allows may lead to the destruction of the actual value.

In this model firms with high need for strategic interdependence and low need for organizational autonomy should bear the *Absorption* integration model, low strategic interdependence and high organizational autonomy focus on *Preservation* model. While the most difficult to manage, high strategic interdependence and high organizational autonomy the *Symbiosis* and the easiest the taking part of value through a *Holding* approach to "integration model".

What is important to distinguish is the nature of the interdependence, which is - how value will be created. Jemison and Haspeslagh (1991:139) have categorized it has *resource sharing*, *functional skills transfer* and *general management capability transfer*.

Resource sharing has to do with the rationalization of operating assets and efficiencies when considering the scale and size of the activities, general management capability to do with the ability to improve coordination and control. The functional skill transfer that is of particular interest given the nature of acquisitions in this case study, to do with skills and the people that have them. The paradox of organizational autonomy and strategic interdependence is particularly evident in the services companies related acquisitions, since the capability that is to be transferred resides on people or on groups of people. In some situations *"companywide autonomy was needed because the acquirer had virtually no experience in the business and the particular skills sought were inseparable from the culture in which they rooted"*(Jemison and Haspeslagh, 1991:150).

The size of the acquisition or quality of the acquired company factors are determinant for the integration approach to bear. This was also identified by Jemison and Haspeslagh, that managers normally tend to review the quality of the company to be acquired and their performance aiming to scenario where there is a direct relationship in binomial price quality lacking the opportunities to consider low quality and turn around comebacks (e.g. Electrolux which was extremely successful in turning around low performance companies, low price acquisitions – Zanussi into fantastic examples of growth and value). The other aspect is related with the size as determinant on the integration approach to follow. Some studies suggest that acquiring managers were more satisfied with targets that had higher market share, suggesting a market performance dimension to size (Fowler and Schmidt, 1990). The problem when considering the size, resides on the greater tendency to fall automatically into the *"make them like us"* syndrome because the facto power balance is in favor of the larger firm when it is integrating a much smaller organization. Understanding the integration approaches allows determining, what capabilities do Ericsson aim at transferring and the means to ensure it creates value throughout the integration model chosen. However as Jemison and Haspeslagh, raised there is a consensus to what integration means and to the majority of the acquiring managers "making them like us" seems to be the consistency. This raises two additional aspects *diversification* and *culture*. So *it is to makes them like us* or *is it us that need to be like them?* Since *Ericsson has planned for a diversification strategy in the first place.* The culture related aspects become relevant to review and are subject in the following section.

3.3 Culture Defeats Strategy

Kroeber and Kluckhohn (1952: 181) define *"Culture consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditional elements of future action",* according to Hoecklin (1995) *"What culture is a shared system of meanings, relative* - *there is no cultural absolute, learned and about groups. What culture is not right or wrong, inherited, about individual behavior"* and to Hofstede (1998) *"It is the collective programming of the mind which distinguishes the members of one group or category of people from another."*

Company culture can be seen as the "glue" and the essence between strategy, structure and the integration models. *"Corporate Culture is extremely important as it correlates to a company strategy, the way it is organized, to its staff and of its performance"* (O'Reilly, 1989). Particularly in regards to firm's corporate - culture matters (Schein 1999). It matters because decisions made without awareness of the *operative cultural forces may have unanticipated and undesirable consequences.*

Because of the increase in number of M&A (seen in section 3), as M&A become the option to address a business objective to meet a strategy culture plays a key role in management decisions to address the differences between both the acquirer and the acquired. To Trompenaars (1998) *"Every culture distinguishes itself from others by the specific solutions it chooses to certain problems which reveal themselves as dilemmas".*

It is convenient to look at these problems under three headings:

- *those which arise from our relationships with other people;*
- *those which come from the passage of time; and*
- *those which relate to the environment (structure)*

These differences, though they exist of complementary nature or conflicting one are required to be understood even the factors which have led to the acquirer to acquire the company in the first place. Depending on the integration model to be chosen, the decision may or may not put the corporate cultures in a *clash* (Samuel Huntington). Any firm that wishes to integrate must not neglect the importance of behaviors, values and habits that determine and describe the company culture.

Schein (1999) defines three possible patterns while in an M&A process, the collision between acquired and acquirer can lead to *separation* of cultures, *domination* of one over the next or *blending*. In the *blending* case is all about integrating and benefiting from the opportunities of learning and improving from the acquired and increasing the acquirer performance. This must not be neglected as in the M&A of services cases these play an even greater role (Accenture, 2004). Taking part of the opportunity and the advantages of an environment change that M&A provide must not be neglected be considered a well thought opportunity to promote change.

So how can we assess it and use it to our benefit and what are the implications in the integration decision model? Schein (1999) defines the three levels of culture, these go from *very visible to the very tacit and invisible.*

- The *artifacts* – what we see hear, feel, visual observations we make out of the space, and environment. The dress code, the working area arrangment, offices, open doors, closed, noise level, movement.
- The *espoused values* – diging deeper to find out more about the organization, ask questions, why is this done like this on office practices, the sales, qualifying the processes, the integrity of people in handling conflicts situations, teamwork, customer focus, quality of responses to customer queries and products.
- The *shared tacit assumpions* – further deepn inside the organization culture, whats the history of the firm, how did it all started, cost control, the founder type of person, entrepreneurial, the group, the board and the reality and influence of background and origin of the company. These had turned into beliefs and values which are now taken for granted in the organizations.

In simple terms culture is the property of a group, it is an *unconscious set of forces* that determine both our and collective behaviors. Organizational culture in particular matters because cultural elements determine the strategy, the goals and modes of operating. Hence, *"Culture will defeat strategy every time"*.

3.4 All about Creating Value

Value creation is the essential element in any acquisitive tactical decision, what is vital to understand and accordance to Jemison and Haspeslagh, *"value creation takes place after the post-merger integration process"*, *"…value is not created until after the acquisition, when capabilities are transferred and people from both organizations collaborate to create the expected benefits…"* (Jemison and Haspeslagh 1991:11)

Understanding the strategy setup to meet a goal, through a tactical decision of pursuing an M&A process which will depended on the integration model chosen will determine the value that is to be created.

In absorption related acquisitions in order to create expected value, Jemison and Haspelagh (1991) recommend 4 basic tasks, those are to *handle a blueprint for consolidation*, *managing the combination*, *moving to best practice* and *harnessing the complementarity* between the two firms. In the planning phase clearly costs and benefits of rationalizing functions have to be carefully weighed. But the expected benefits can often be quantified because they involve assumptions about identified costs savings. However much of the cost may comprise less tangible costs of compromise whenever the rationalization of assets or integration functions diminishes the entrepreneurial drive or employee enthusiasm and sometimes the logic of resource sharing may run counter to the logic of skill transfer, such is the case of Services acquisitions.

In preservation related acquisitions Jemison and Haspeslagh conclude that value is created through *"nurturing the acquisition for accelerated business development, equally important is the learning derived from those acquisitions. Even if the exploitation, strengthening and broadening of company's current domain have* *primacy over the exploration of new domains, the diversity of exposure resulting in preservation models may be the important ingredient in a healthy renewal process in large organizations"*.

3.5 Summary

In section 3 the author identified that:

- Mergers and Acquisitions are the fastest solution for many firms to achieve growth.
- M&A can be of Horizontal, vertical or conglomerate. Determining whether it is a diversification activity will a direct correspondence to success, since the track record of related acquisitions is significant better than that of unrelated acquisitions
- Fluctuations of durable and soft goods and its acceleration principle towards and life cycle obsolescene to the attractiveness of industry and its dependency on the strategy defnition of services.
- Strategy, M&A vs Intrapreneurship, key competencies as competive advantage and dominance and the impact of these in adoption to new practices includes changes in the structure.
- Strategy and structure have feedback relationship, firm can access only those strategies that it is organized to undertake, advantages and issues from divisional models.
- Various Integration models towards strategic interdependence and organizational autonomy to create value.
- Integration is not about "making them like us"
- Corporate culture matters, as it correlates to a company strategy, the way it is organized, to its staff and of its performance
- Value is generated after the integration approach

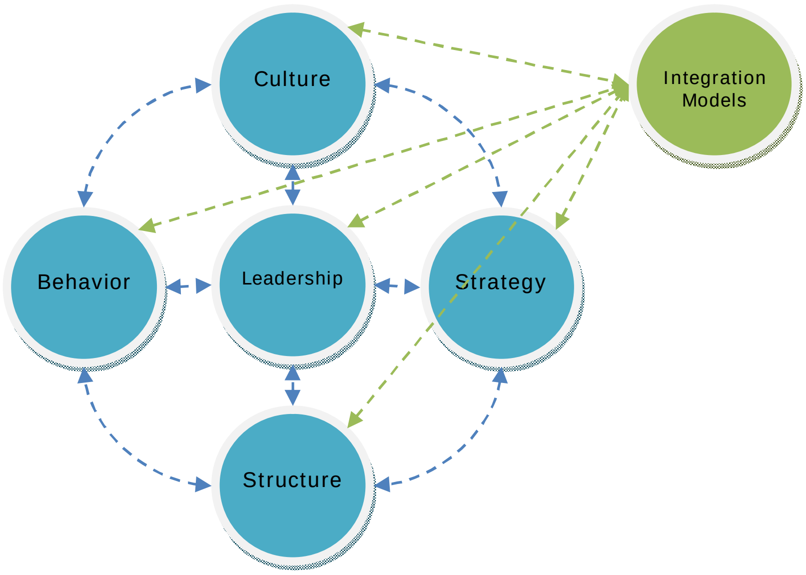

Illustration 3 –Interdependence and relationship

4 Research Method

In this section follows a description of the methodology followed to conduct the research including the elaboration of the questionnaire, tools and frameworks used for the analysis and mapping of the data.

4.1 Questionnaire Methodology

David S. Walonick (1993) refers that "*Questionnaires are one of the most popular methods of conducting scholarly research. They provide a convenient way of gathering information from a target population*". In this model a phased activity has been considered, where by describing the problem, will enable the formulation of some hypothesis, from these create appropriate preliminary questions, and test to check for inconsistencies and bias on the intervention of the interviewer and influence to the interviewee. The last step is to go through development of the actual and final questionnaire to the various stakeholders and based on these gatherings conduct the result analysis (chart/tables, maps) to validate and test the hypothesis initially formulated.

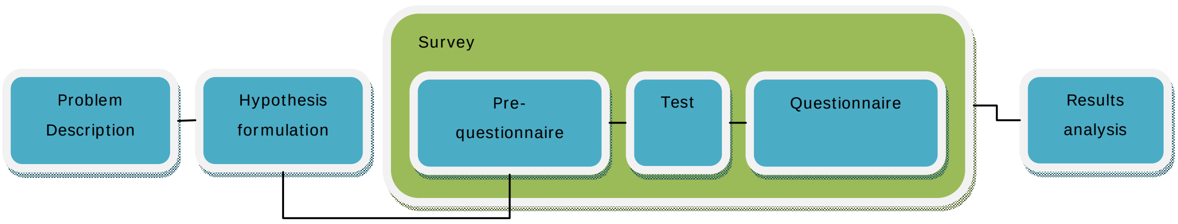

Illustration 4 - Questionnaire Methodology

The objective of this questionnaire is to provide a structured interview process to review the M&A conducted by Ericsson. The target audiences are individuals that had involvement (decision makers, managers, project responsible) for the following acquisitions:

- Company A[3]

[3] All the information of Ericsson acquisitions related and no excluded to the company names, stakeholders, questionnaire respondents, size and or other referenced figures and numbers have been replaced with abstract indicators. This is a compulsory measure to safeguard and ensure the non-

- Company B
- Company C
- Company D
- Company E
- Company F

4.1.1 Assumptions

The assumptions prior to the result reviews were:

- Only the companies depicted above were considered. These services companies are within the Systems Integration domain.
- The acquisition process was conducted and finalized.
- The decision to acquire was the solution to meet the strategic objectives. (Excludes alternative strategic solutions, internal growth increased head count, new creation, mergers, joint ventures, partnerships, will not be assessed)
- The acquired company was the best option. (Excludes comparison to other alternatives or companies in the market, political aspects).

Bearing these assumptions in mind allowed focusing on the object of this study and formulating some hypothesis to be tested in terms of the integration model that had been chosen.

4.2 Hypothesis formulation

The basis for the following derived from a series of interactions and informal feedback regarding the acquisitions and position from those external to them but which have had opportunity to engage the acquired resources, as well a set of considerations based on the perceptions of those directly involved. Included in the list below are also hypothesis which have been required to assess and clarify.

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disclosure agreements and protect the confidentiality of this business activity. More details of the companies' profiles are included in annexes.

For each of these hypotheses, a direct question or a series of open questions were defined to provide a response and test the hypothesis. These questions were then referred to through the objective/quantitative component of the questionnaire, which has enable us to review quantify results, as there are those that were covered through the subjective/qualitative component of the questionnaire, in which case reporting and alignment of the feedback from the interviewees shall be considered.

The following hypotheses were to be tested[4]:

1. H0: Functional Skill transfer is the main objective for acquisition
    a. *Did the people you involve understand the objectives and drivers for the acquisition?*
    b. *What were the main drivers (key advantages of the acquired company) that justified the acquisition?*
    c. *How was value going to be created?*
2. H0: Ericsson processes (security, IS/IT, ERP, HR) increase the cost structure of the acquired company.
    a. *What is your cost structure today after the acquisition?*[5]
3. H0: The acquired company has a different culture (hunter, can do) and should be maintained autonomous.
    a. *What type of integration strategy was chosen? Keep the acquired company independent, autonomous, symbiotic, absorption? Why?*
    b. *Did we manage to retain all the talents?*
    c. *If not, why not? (psycho-social related aspects, administrative, leadership, processes, company culture)*
4. H0: The acquired company Brand Image and Reputation must be autonomous.
    a. *Organizational Autonomy - Considering the need for autonomy, which of the areas are specifically important to maintain autonomous?*
5. H0: The sales approach of the acquired company must be autonomous.

[4] The *italic sub bullets* below each formulate hypothesis are questions taken from the actual questionnaire.

[5] Given the number of variables and different methods for man-hour cost control, this question has not allowed to validate or assess the hypothesis 2 formulated. Specific section will cover the details and object of additional study.

   a. *Organizational Autonomy - Considering the need for autonomy, which of the areas are specifically important to maintain autonomous?*
6. H0: There was time to plan and define performance indicators to measure outcome of the integration and acquisition.
   a. *Were there any measurements (key performance indicators) in place to check on the integration process?*
   b. *Was there a business case (cost / Benefit analysis) conducted?*
   c. *Was there an integration process/plan in place?*
   d. *Did the plan accounted for all aspects? (company culture, operational details, administrative, labor laws & rules, careers, communication)*
7. H0: People involved in acquisition process are not the same in the integration process.
   a. *Did you involve other people? Who? Why?*
   b. *Were there agreement and optimistic atmosphere in the team involved?*
8. H0: The operational managers of the acquirer and acquired have a late involvement in the process.
   a. *Did you involve other people? Who? Why?*
   b. *Were there agreement and optimistic atmosphere in the team involved?*
9. H0: Pressure for performance and results hinders the benefits of the acquisition.
   a. *Were there performance pressures?*
   b. *Was there a grace period? How long?*
   c. *What were the pressures? Managers from Ericsson, budgeting process, need for results.*
   d. *Were there any KPIs to assess the overall results? (Net Sales, Market share, customer satisfaction, employee satisfaction, costs, competitive)*
10. H0: The acquirer has learned and changed/adopted practices of the acquired company.
   a. *How was the atmosphere?*
   b. *Shared reciprocal understanding?*
   c. *Mourning Curve, were there willingness from both parts?*
   d. *Were there opportunities to learn from the acquired company? What have we changed/planned to?*

e. *What, if anything, would you have done differently with regard to integration management?*
f. *Given today's situation what would you do differently? Why?*
g. *Your personal comments and opinions. What have we learned and should share for future processes?*

4.3 Questionnaire Creation

Given the nature of the questions to be considered for the validation of the hypothesis, the questionnaire had to be split in two parts a quantitative and a qualitative component. In this process the pre-questionnaire, testing and questionnaire were conducted in a single activity. The risks were known to the author that the quality and feedback provided on the questions could not meet the criteria defined for the validation of the hypothesis. The targeted interviewees are top level management therefore efficient use of time, were determinant to accept the identified risk.

The quantitative component of the questionnaire contained questions related non-sensitive information and were contextualized to support the results comparison of the targeted samples. The objective was to have detailed review of the information and those items which are able to provide indicators for benchmarking purposes. The quantitative analysis was conducted through an online web survey. The platform selected allowed interviewees to respond at their convenience, ensured that the confidentiality and integrity of their feedback and comments were met.

The second component aimed at assessing the underlying aspects (subtleties of the integration process). These were much more dependent upon sensible information, opinions and information which are more complex to measure in a quantitative analysis. Has highlighted in previous sections, it was important to dig into the shared tacit assumptions of the acquisitions process conducted. The questions were taken through an interview (phone, presence when applicable) in a comfortable informal environment.

4.4 Data analysis and Creation of the document

Turn Customer Input into Innovation, by Anthony W. Ulwick has been a reference paper in terms of the means to formulate, plan and analyze the information gathered and identify the conclusions and outcomes. The rating system allows for a better planning of what are the more relevant in the details, without the temptation of influencing the actual feedback provided. There are limits to the listening and therefore for the creation of the questions and during analysis, when way to address the problem of which is the best integration model, asked the stakeholders to focus on desired outcomes to avoid the blockings. Based on the feedbacks and with the aid of the mind map tool the information took form of a guiding map which has been used to the conclusions.

For the data analysis the following tools and methods were used:

- Excel
- Mind Map
- Ishikawa fish bone
- Forces-field
- Porter 5 strengths
- Resource based analysis
- SWOT/WTSO

4.5 Scheduled activities and milestones

The following is a snapshot of the research plan and activities which have followed, during the course of this study.

- Information Gathering - Information gathering, reading material, and questionnaire development.
    - Meet the tutors, define and agree plan, define reading material, get licenses, passwords, accesses and authorizations required
    - Study materials and reference material
    - Define and develop questionnaire hypothesis development H0, H1
    - Define segment and target

    - Define operational details for questionnaire, platform and mediums, security restrictions and anonymity
    - Fortnight discussions with tutor for progress tracking and reporting, doubt clarification
- Questionnaire – Publicize the questionnaire (full month), continue information reading
- Data Analysis – collect data, preliminary analysis of data
    - Mind map findings, categorize, prioritize and organize data
    - Cause effect analysis
- Dissertation Development – develop prototype structure for dissertation report
    - Define with tutor Structure, inclusions, exclusions
    - Include main data findings and statistical references (if available)
    - Present First draft
- Review and Report – Review and report, feedback
    - Continue to include and adapt based on tutor feedback,
    - Develop and adapt accordingly
    - Present 2nd draft with feedback from tutor and additional requirements
    - Receive feedback
- Presentation – Final report
    - Embed final feedback and adapt
    - Develop preliminary presentation
    - Rehearse and receive feedback
    - Incorporate feedback
    - Deliverables ready to for assessment (presentation and dissertation)

5 M&A Questionnaire Findings

In this section are included the findings from the questionnaires as well as a brief comment to results found. Questionnaire profile below provides insight to the interviewee’s segmentation in terms of their functional role in the organizations and their participation in the acquisition process.

5.1 Questionnaire Profile

The questionnaire has been responded by eighteen respondents. The segments were made of 35% of top management (CEO, VPs), 45% middle management (Directors and Managers), 20% operational support (Program, Project Management, Operational individuals).

The majority of the interviewed are from Company D or E, in both cases with good balance of people from acquired company and Ericsson (45% and 55% respectively).

For the remaining companies, interviewees were from Ericsson.

5.2 M&A Drivers

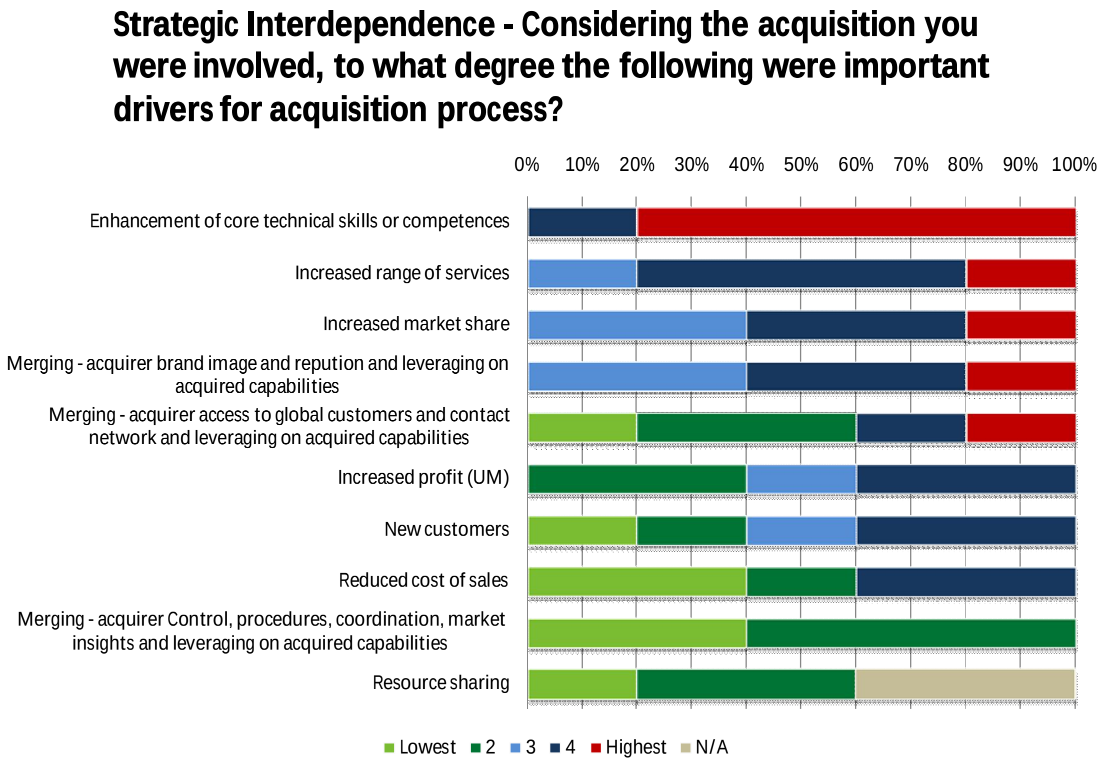

Illustration 5 - Strategic Interdependence, Important drivers

Interviewees evidences:

- *"The business unit initiated the need for the process and recommended the acquisition of company D. The main drivers were focused on value and competence to meet our strategy. Our Televisionaire vision and business of IPTV and Systems integration domains, demanded that we overcome the barriers: lack of solutions, lack of (no) references, in order to boost our experiences and boost our references."*
- *"Operations area understood better why the acquisition in Systems integration area was needed to meet the business vision and objectives. The operations gave a positive view and were engaged."*
- *"…we acquired the company because we wanted their knowledge…"*
- *"…To acquire a company with those experiences was a necessary and fundamental step to meet our strategy."*

- *"Systems Integration Business to grow it was required quick entry acquisition of the company allowed us to have the necessary competences. There were too few examples of successes in the IT and telecom management area in Ericsson. We are struggling to be perceived as an IT player as we are still too close to the network element nodes rather than IT solutions."*

80% of the interviewees considered the driver for value creation the acquisition of the competences, and means to achieve growth in the services sector (*review 3.2.2 Key competences*). The evidences provided, the M&A has been chosen to achieve as a first step the competences and skills to address new business areas, to existing market share, to expand the services portfolio and to leverage on existing Ericsson capabilities. In order to take full advantage of the acquisitions it is by establishing processes that will enable Ericsson to transfer those skills, those customers and those capabilities into the existing services practice. It is not only about maintaining and meeting the business case that justified and paved way for the decision of acquiring, it is the whole that enables the synergies to take effect.

Undeniably a key consideration is the fact that Ericsson's brand, image and reputation, as well as the visibility and access to world-wide customers are assets that can and must be put to use so that the cheer measure of success of such acquisitions can be realized within the terms of the acquisition and the time frame of the market opportunity.

It is interesting to review some of the comments where the brand, image and reputation of the acquired are essential drivers to meet the needs for the acquisition. It is aligned with the evidences of the many claiming the need for changing the perception of Ericsson as a player within this sector (*review section 3.2.4 diversification*.)

5.3 M&A Integration Models

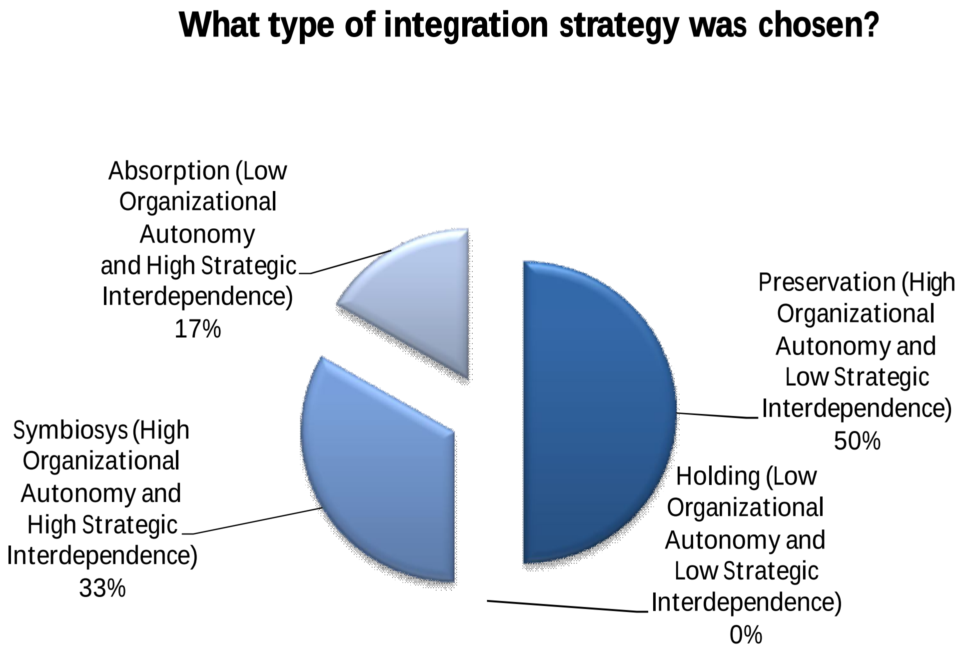

Illustration 6 - Integration Strategy

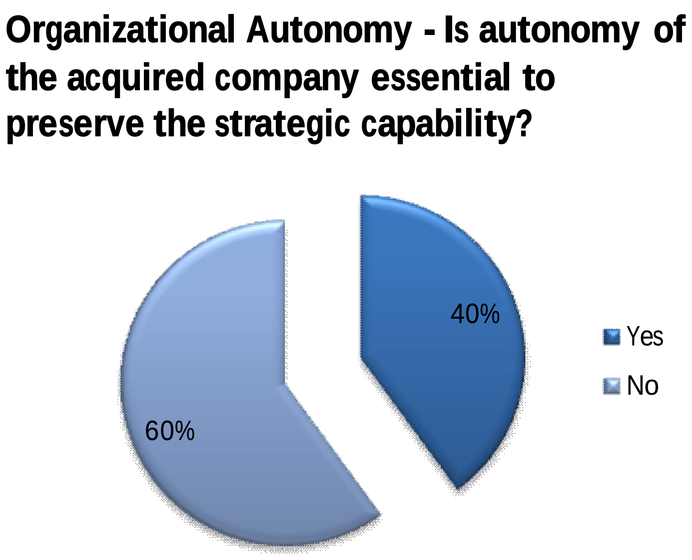

Illustration 7 - Autonomy reflection

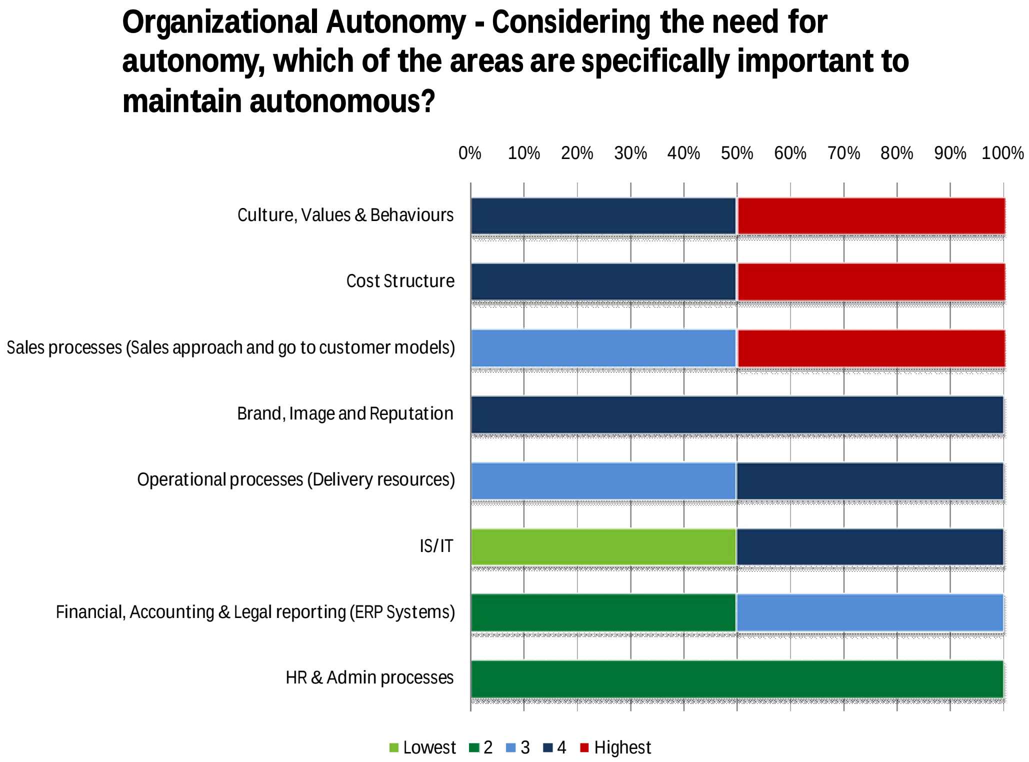

Illustration 8 - Organizational Autonomy, Areas to keep autonomous

Interviewees evidences:

- *"The whole process took less than 2 month from getting to know to full absorption. We knew from the due diligence that the acquired company E was in a very expensive building so moving the people into Ericsson was a priority."*
- *"This was very tricky, since 1st part was to keep in 1st year autonomous, because there was different company culture, need to start to collaborate, start projects together, very traumatic to people sit in different processes. There was the monetary dimension/growth, the business case that needed them to grow, should believe and see that it happens, different logistics issues, buildings, the IS/IT, careers took 6 month of interactions to have job catalogues to map everyone into Ericsson and it was quite intense."*
- *"We have decided to keep them independent. Simply because we decided only to tackle the business case, we wanted to follow-up on the business case."*

- *"We decided on full assimilation, we wanted to be quickly transformed in a Ericsson label organization, maintaining the skills and keeping the business relations, to be able to sell, to be able to buy market share."*
- *"We had learned from other experiences where Ericsson decided to keep the company separate. In our case given the size of the company and the need to grow our competences quickly we decided to go on absorption."*
- *"We decided to go for independence, keep the acquired companies autonomous. If we can grow we need the credibility, the scale, the branding and customer perception of IT Company. Company gave us that opportunity."*
- *"Maintain the acquisition without jeopardizing the channel. To have two channels to our customers, one through Ericsson another one through the acquired company, two channels, two brands, coordinated by the Key Account Manager (KAM) from Ericsson. Through the second connection we can leverage on the increased the quality of information and power base, since historically, Ericsson KAM only had connection to the CEO, CTO, never to the CIOs."*
- *"By having a separate legal entity, it has allowed us to come down on price, and downstream the entire cost structure, in order to be competitive. This M&A gave us the ability to really be perceived in the big transformation projects, where telecom and IT are converging, so we can leverage on the Telco experience from Ericsson and on the IT experience from the acquired company."*
- *"Clear advantage on price (through the flexible and agile structure of the acquired company) and advantage of a massive player such as Ericsson to sell systems and solutions for networks. This way we cover the telecom management part and the network part. The Market unit gains a clear advantage as to have a prime integrator engagement model."*

The facts, the interviewee's defined majority (60% vs 40%) that there was no need to preserve the capabilities of the acquired firm since Ericsson, therefore considering that Ericsson would be able to leverage on the value which was to be created. The evidences show us that the rationalization in many cases is the prime activity in ensuring the integration process and the need for creating value by harnessing the competences acquired and including them in the learning activities which are evident in absorption integration models (*review section 3.4 Creating value from Absorption models*).

Another aspect of the findings is that interviewees also provided typical feedback of preservation integration models. One of which of particular relevance is related with the competences, customer relation and market perceptions with a clear concern that the absorption model would destroy such capabilities.

Even in hybrid integration model evidenced, the author observed the behavior of Ericsson during autonomy/preservation phase and the change during the absorption model. In the first clear focus on nurturing the acquired firm to keep and meet the business objectives (the business case) while on the second complete transformation and focus on the rationalization of the assets, those including resources. In both cases the reality has not changed, the creation of value was still based on the ability of the resources competences to deliver.

In the case of the respondents which have identified the key reasons for autonomy two items of particular relevance came to play. The first culture (*review section 3.3 make us like them?*) where the majority of the interviewees identified the need to preserve that characteristic as a necessary mean to maintain the value, another less visible with the material covered with the costs structure. This provides an indication that the the current Ericsson structure is inadequate to meet the business needs to achieve the expected value.

It is again visible the dominant set competences of Ericsson even in the relations established with the customers, where the engagement with the customer key decision makers are different in the systems integration (CIO) activity from those that Ericsson is used to deal (CTO). This strengthens and fundaments the reasoning to support the need for preservation of the assets of the acquired company (through a preservation model) and use this has an opportunity, the mean to reach the diversification strategy (*review section 3.2.2 opportunity to change*).

5.4 M&A Integration Process

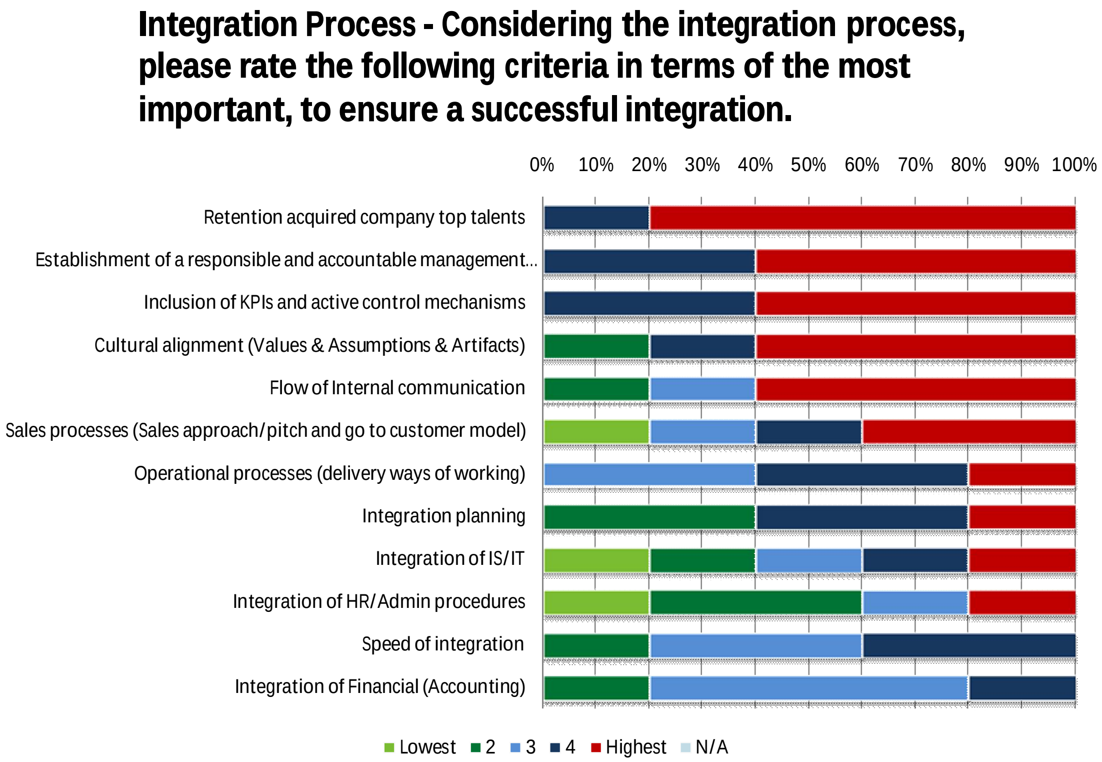

Illustration 9 - Most important criteria for a successful integration

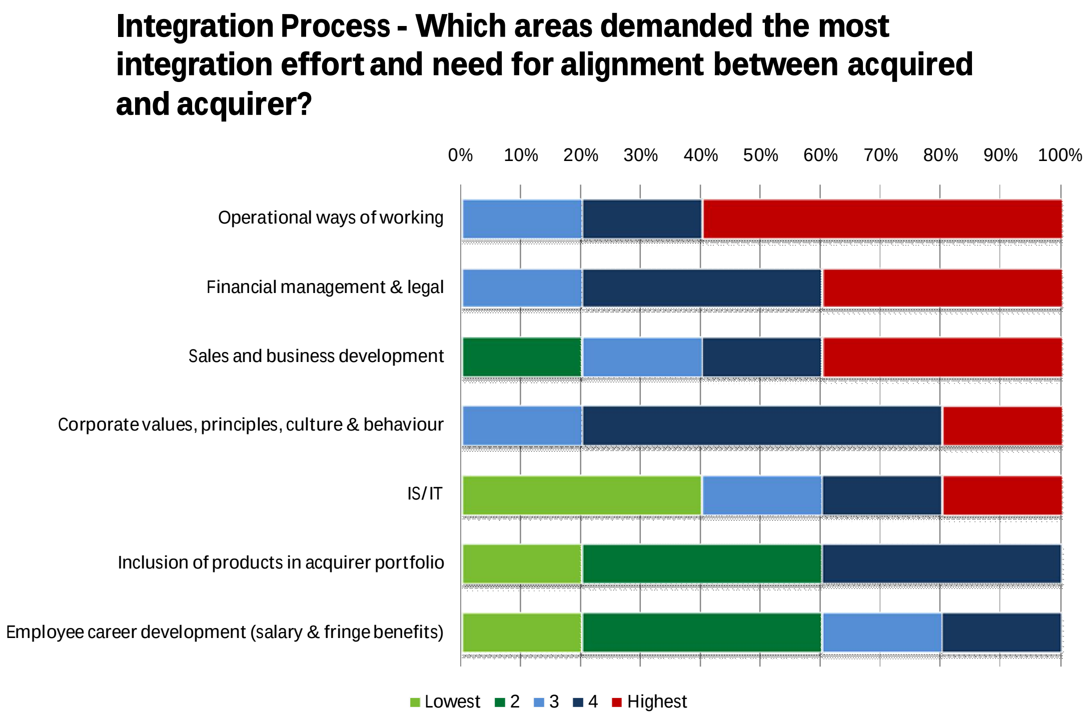

Illustration 10 - Areas which required most integration effort

Interviewees evidences:

- *"…our plan, focused on company culture, operational details and administrative. The administrative part consumed a lot of time. Lots of problems with HR systems, invoicing through SAP"*
- *"Ericsson sure can't handle smaller customers, it took us more than 4 month from creation of the customers in our financial systems to invoice the few hours, so there were tremendous pressures to keep high utilization rates with resources and very high costs to maintain the customers.*
- *"…an aspect was related with the careers which had to be aligned with those of Ericsson Systems Integration."*
- *"When resources came to Ericsson, everything was more rigid, Ericsson is unable to handle small customers, we can only leverage on big contracts."*
- *"Basically it was the people from Sweden that recommended the market unit to acquire the firm. Only after many iterations we received information that Ericsson saw this acquisition as strategic to acquire specific knowledge within Multimedia. As such Ericsson was going to develop on our capabilities."*
- *"We have learned about the need to have flexible admin systems to manage the SI business, it's quick and demands agile processes."*
- *"The projects are handled differently, SI related projects have different tools, different processes and ways of doing it, there are big misalignments between Ericsson processes and the telecom management area delivery processes."*
- *"There was a loss in the agility and flexibility, since our sales process consumes a lot of energy."*
- *"Company E needed the financial stability and Ericsson needed the flexibility."*
- *"In fact the Ericsson supply chain process is not adapted to small customers, only for major projects."*
- *"…we had a plan and called it our transition plan, appointed a person to manage the integration and ensure the feedback/decision we provided in the steering group was taken."*

- *"No.There was no integration process, Ericsson just told us we had to invoice our customers."*
- *"…there was a great concern to make sure the people from company E felt they were part of a group and that we could start working almost immediately."*
- *"…we planned to move all the Ericsson staff involved in the SI activities to the acquired company C.*

It is evident that the key drivers have been on people, the access to profiles with the right skills, the right culture, and ability to deliver and support the growth objectives setup in the services organization. Still there is a clear lack of integration between the interviewees consider to be of importance and value retention of people, establishment of an accountable individual, definition of indicators, assessment of culture, communication as to the evidences and concerns identified. In the following sections the author covers the situations of for each of the criteria. The study conducted by Wingmark (2006) provides the recommendations to meet the smooth and successful integration process. The next sections will include in brief the findings and recommendations of Wingmark research by considering the integration model to approach to hold. In synthesis include:

- Integration Leadership
- People
- KPIs
- Integration Planning
- Cultural Management

5.4.1 M&A Value and People

People	Value
"Time was really short, so there was little focus on people. The head of delivery of services of the market unit was involved so he was handling all the details, from CVs, salaries and benefits and mapping into the existing organization."	*"We needed to strengthen the Telecom management area, the company E, met our interests to achieve those needs of competences, references and customer relations."*
"When Ericsson started to assess the people competence, they realize they were not all at the level of our top engineer, so there were some serious doubts."	*"Acquire a smart and small company, with Telecom management knowledge, with entry point to the CIO, with competitive man hour rates, as we know price is the main competition factor in IT."*
"…the situation was changing, we had to start cutting pieces, things I didn't understand, it was very disappointing to see my resources being reduced."	*"Company A had complementary skills, everyone at the customer top management knew them, and had a long stable relationship, and it was our opportunity to get into a market and achieve our business goals, diversification and growth."*
"For the acquired staff, saw as an opportunity, for Ericsson moving staff was very complicated, it took people long time to understand or grab the opportunity at hand. People were not willing to move, even if it meant having in some cases an increase in their benefits, simply because they were moving from Ericsson to a company which is owned by Ericsson but under a different brand."	*"Strategic for our Multimedia and Systems Integration business."*

Table 1- M&A Value vs People, Interviewees evidences

In all the evidences it was visible the need for people and skills has the prime asset to consider. It was oberved that from all the absortion acquisition processes except for one example the remaining had not carefully reviewed and assessed the people skills, their profiles, considering their knowledge, skills and abilities to plan their integration in the carreer guidelines of Ericsson. It became even more visible by validating the hypothesis that the operational delivery managers from Ericsson have late involvement in the process have a direct impact in the success of the integration process *(see Table 2 - Hypothesis validation)*. As recommended by Wingmark (2006), the management staffing, should:

- *“Perform the management staffing quickly.”*
- *“Secure that the management staffing is perceived as fair.”*
- *“Secure that newly appointed managers have the ability to manage existing business as well as driving the transformation.”*
- *“Identify key people (managers and individuals) to be retained in the short term and the long term from both organisations, preferably before the deal is closed.”*
- *“Develop customised incentive packages and personal career plans, and communicate this in person.”*

If the assets to be acquired are the people, necessary attention evaluation should be the main priority in the whole acquisition process, as the input will be valuable and decisive to determin the acquisition model to chose from. In section 2.1 Problem Description one of the problems is to determine the valuation criteria which allows companies to provide an indication of the expected short/medium/long term return of assets of the services companies.

5.4.2 Leadership and Accountability

Interviewees evidences:

- *“The atmosphere has always been caotic. The key owners of the business left the company after the acquisition, the customer change the CEO, the reduction of staff”.*
- *"the acquired Company, was seen as another problem among many other problems in this market. Timming was not good, the mandate was mainly on market unit and we were acquired to be performant only in market unit”.*

- *"It really complicated, the responsible driver left just after the due dilligence which create a big void in between acquisition and integration. Lost momentum"*
- *"Basically it was the people from Sweden that recommended the market unit to acquire our Company…only after many iterations we received information that Ericsson saw this acquisition as strategic to acquire specific knowledge within Multimedia…"*

The evidences provided clearly provide a scenario where the undefinition of an accountable responsible leader, empowered to conduct the acquisition integration are necessary to communicate and harness the acquired assets. The scope of the integration and the planning considerations for integration of the acquired companies are even more evident to ensure a successful integration activity. Findings and recommendations of Wingmark (2006) regarding the importance of Integration leadership identify the need to:

- *"Secure that the sponsor is a senior executive with a comprehensive overall view and with a clear mandate to drive the integration in the best interest of the company."*
- *"Secure that the integration team leader is driven, decisive and sensitive to different views and cultures, and has the ability to manage strategic as well as operational issues with confidence."*
- *"Secure a full time integration team with experienced people in senior positions from both organisations."*

5.4.3 Key Performance Indicators

Interviewees evidences:

- *"Since the business case was not being met, the integration plans should not decide until we know how to move the company."*
- *"Only numbers. Report every month on financial performance, we were not used to do such reports, there was no real integration."*
- *"Yes. Basically financial on targets for utilization, sales."*

- *“Yes we implemented a Score card and metrics from the transition program and from the business case.”*
- *“The business case was our priority.”*

Except for one sample all the interviewees defined the business case as the only measure to assess the success of the acquisition, for the integration and post integration process. The key performance indicators become a relevant consideration specifically in the value creation for preservation acquisitions is assumed that integration effort is little. However in practice as reported from the evidences it requires adequate protection a continuing effort and (1) *ensuring continued boundary protection* (2) *nurture the acquired company,* on which the acquirer must user resources above all general management skills to help the acquired company develop faster and better that otherwise would have (3) *accumulate learning* from the new business and next developments, (4) *champion increased resource commitments* to the new domain.

5.4.4 Culture Management

Interviewees evidences:

- *“The atmosphere was very good, are in the same country, acquired company E was a small company, we are a big company majority of the people saw that as an opportunity.”*
- *“They wanted to join Ericsson, wanted to be part of the people to make the difference”*
- *“Company staff was in fact shocked with the amount of time we spend in talking, and meetings, and feedback sessions, because it was against their goals of billability and utilization, it was like we were taking their time from the customer, and a lot objected to this.”*
- *“Same culture from MU and our company”*
- *“By leaving the company stand alone, it created an effect where people felt isolated, didn't want to follow the Ericsson processes, culture was too different, oversensitive”.*

- *"Both companies have different things that would like to maintain, such as the go to market, the ways of working, the channel, financial control, DNA is very different it's difficult to have a company outside in the means and procedures to engage. We should have them integrated and that is the situation."*
- *"…We also spent a lot of time on communication and making sure people understood that we were not taking over, but making sure the acquired people felt welcomed into our company. Culture was very evident and visible, with the levels of certification and clearly visible Systems Integration ways of working."*

As the author covered in the section 3.3 Culture Defeats Strategy, understanding the cultural aspects of the acquired company is a fundamental activity to assess the total value of the company to be integrated. Understanding the *artifacts* to *tacit shared assumptions,* provide the means to sustain a decision of the integration model to consider. A case study – Beta Oil (Schein, 1999) illustrates the culture deciphering process in a project that did not involve the total corporate culture directly. The similarities of the case with the requirements of the Systems Integration are worth covering given the evidences provided by the interviewees. The case includes as restructuring of "Beta Oil" by combining all engineering into a single service group. In the new centralized group the engineers would then work as consultants for the previous organizations and charge for their services. In the case study the organizations and business units could go outside for the same services, however the engineering services were only sold internally. The example describes a scenario where previously secured service engineers had now to adopt a new culture, by which they needed to "hunt", they need to sell themselves. The change of culture required the way to reach that desired culture is the challenge as well as is the challenge of coordinating the integration of different cultures under the same roof. Evidences have shown that many of the acquired assets had an easy integration into the Ericsson culture, nevertheless as is the case of the Beta Oil example, the priority of the integration is to develop or leverage upon the desired image of how to work. It's not only about some new set of general *values on teamwork but rather the new ways of working with a concrete description based on the culture assessment and the business* *realities* (Schein, 1999) that Ericsson faced. As Wingmark (2006) recommended to *"Performing a cultural audit of the ways of working in the different business and support processes of the combining companies before the detailed integration planning starts"*. Applying the cultural assessment methodology of Schein (1999) (1) start by polling a group to get consensus of the business problem, (2) Explanation of the culture model *(see section 3.3,)* (3) Brainstorm on artifacts, (4) Focus exposed values, (5) explore the underlying tacit assumptions, and finally (6) Which of the assumptions help or hinder the evolution and new way of working for the group. The methodology provides the following advantages:

- Leaders become aware of the magnitude of the change task
- Demands that the culture adoption is concrete and specific on the ways of working.
- The structure of the organization must be able to foster the new behavior.

The integration decision model can be more effectively chosen based on the underlying cultural assumptions on ways of working that is to be used and if Ericsson does have the assumptions to absorb or should there be a preservation of the acquired firms assets.

5.5 Hypothesis Validation

Hypothesis	Evidences	Validation
1: Functional Skill transfer is the main objective for acquisition	In Illustration 5, the hypothesis on acquisition of skills and competences has been considered by 80% as the main driver to the process. It is a matter of quickly entering into a new market by having the key resources involved.	**True.** This is applicable for all the acquisitions conducted in the systems integration. Accesses to the right competences are the key drivers for the acquisition process.
2: Ericsson processes (security, IS/IT, ERP, HR) increase the cost structure of the acquired company.	Culture and cost structure have been identified as one of the main criteria for preservation and autonomy of the acquired company (Illustration 8).	Not enough data. To be determined. *(Review section Limitations of research).*
3: The acquired company has a different culture (hunter, can do) and should be maintained autonomous.	Culture and cost structure have been identified as one of the main criteria for preservation and autonomy of the acquired company (Illustration 8). From the feedback provided in the interviews the majority of the transferred staff have had acceptance in adapting and adopting the Ericsson culture.	**True.** Even if the Ericsson company culture is easy adapt, Ericsson may be facing a risk in which the magnitude and robustness of the bigger acquirer has provided a sense of security to acquired staff. It is however recognized that it is critical to maintain the cultural roots of the acquired company and the flexibility to meet the volatile market demands.
4: The acquired company Brand Image and Reputation must be autonomous.	All respondents have considered the high the need to keep the BIR of the acquired company autonomous, however it has been classified as the third most important criteria. There are evidences for both scenarios promoting	**False.** There are advantages in both cases but not a necessary must. The size of the acquired company in terms of the market share is an additional factor to consider.

Hypothesis	Evidences	Validation
	the strength of Ericsson brand as the mean to achieve the creation of value.	
5: The sales approach of the acquired company must be autonomous.	There are considerable advantages in preserving the acquired company sales approach (Illustration 8). The evidences have shown the impact of loss of customer business, lack of customer intimacy to meet the key decision makers.	**True.** Ericsson sales process and environment structure is unable to handle small sized opportunities. The systems CRM solutions, ERP are not flexible and are inadequate for systems integration activity which has many components.
6: There was time to plan and define performance indicators to measure outcome of the integration and acquisition.	The majority of evidences present a scenario of recognition that value has been created.	**Inconclusive.** Business indicators (Net sales, margin) have been defined and in the majority of the cases exceeded. There are however various variables which contribute to the positive/negative outcome. There were not indicators to review the key talent staff retention. *(Review section Limitations of research and Open topics).*
7: People involved in acquisition process are not the same in the integration process.	Except for one sample the teams that started were not the same during the integration process.	**True.** The risk associated with the handover is related with the structure, level commitment, drive and accountability of people.
8: The operational managers of the acquirer and acquired have a late involvement in the process.	Except for one sample where careful assessment and evaluation of each individual and planning their integration in the Ericsson structure has happened, all the remaining have had late involvement of the Operational managers that	**True.** The cheer recognition of early identification of key talents has proven the success of the acquisition through absorption integration model. Ability to retain, motivate and pull on the acquired staff is fundamental.

Hypothesis	Evidences	Validation
	were to handle the resources from the acquirers.	
9: Pressure for performance and results hinders the benefits of the acquisition.	In all cases meeting the business case has been the priority of the activities. Throughout the integration process.	**True.** The importance of setting a grace period in between the acquisition, integration is important to ensure the expected value is created. It is particular important in those situations where Ericsson has opted for an absorption model where binding the "assets" is the vital aspect. *(review section 3.4 Creating value from Absorption Integration models)*
10: The acquirer has learned and changed/adopted practices of the acquired company.	Ericsson has embedded some practices (e.g. working in Times and material) to the services business. Management of scope and handling customer solutions.	**True.** Ericsson has in majority of the cases adopted the practices from the acquired company. However the sales approach and go to market are still rigid and conservative to follow the Ericsson Sales process.

Table 2 - Hypothesis validation

5.6 Cost obsession, Exploitation, Perception

The following evidences covered are of sensible nature and required some attention to the dangerous misconceptions and mistakes which Ericsson may have been inadvertently be passing over through the chain of command or not providing the necessary support during the acquisitions:

- *"Pressure comes from Ericsson Corporate LME finance unit, with policies to simplify and reduce the number of legal entities, when in fact they are really destroying the viable sales channels."*
- *"If the aim was strategic, buying knowledge why the imperative/almost dictatorship fundamentalist need to invoice???"*

- *"We acquire these companies in the first place because they were performing well, with strong management and ideals, with clear view, who managed to create channels to the customers, who created a reputation. My observations in many of the acquisition processes, is that by integrating into the company we are destroying more than creating value, its a big waste."*
- *"After so many years working in this area (SI) outsde and in Ericsson, we are still no perceived as a player withing the IS/IT area. This represents a big business and an opportunity for us to come out of our shell of equipment vendor and to truly become a services or a software company."*

Given the reality Ericsson is facing in today's market and the strategic acquisitions performed, raises a doubt and a serious concern on where does the border lye between cost obsession and strategic business drive. Teece and Winter (1992) report a concern that the 90s management trends focused on efficiency improvements, short term operational flexibility and quick wins, with activities and practices known as "flattening the organization", "loosing fat", "subcontracting", "business process engineering", "concentration and consolidation" of which if these measures are taken to an extreme, these will transform the *lean* company into an *anorectic* one, losing the ability to handle long term changes or even survivability. The respondents raised a concern as there is misalignment between a policy/measure to reduce costs, and the considerations on M&A processes by which through a managerial decision to conduct a preservation integration model or absorption integration model is impacting the fundamental need to nurture the acquisitions in order for Ericsson achieve the expected value. The alignment and prioritization decision between the business area which has driven the acquisition (business growth) and the directive from corporate to reduce costs is of utmost importance. The clash between the two is visible in the acquisition processes reviewed and has created frustration and promoted unhealthy behaviors in the people.

Making use of the assets and create value vs exploitation. It became even uncomfortable at times during the interview process, the intensity that the interviewees were raising when discussing about the business case. It seems that

Ericsson in the many cases are putting the pressure on top of the acquired companies responsible instead of supporting the acquired company to develop better and faster than it otherwise would *(see 5.4.3 creating value from preservation acquisitions).*

The perceptions are that the business demands a new brand, new approaches, new cost structures, new processes realities which is different from those that Ericsson is used to. The evidences taken from the previous illustrations, interviewee feedback continue to support the need for change. The diversification strategy is all about the need for change and adopting those practices.

5.7 Major Themes and Conclusions based on the findings

There are two positions in the company, one promoting the need for autonomy and preserve the existing acquired capabilities and the other who's belief in the Ericsson brand and size demand an approach for absorption. Both have advantages and problems these are reviewed in depth analysis in the following sections.

Regarding the qualitative analysis observations, the following can be summarized:

- Ericsson brand, image, reputation and financial solidity are the key elements to leverage and to boost growth and synergies in acquisitions.
- All the interviewed from the acquired firm have perceived the acquisition whole or part as a successful one, since to the majority Ericsson's opportunity to learn and make use of the acquired assets is successful achievement. Even though all interviewed also claim the current market and economic situation blurs the outcome/result to qualify the acquisition. In several reports there was a common factor on perception that Ericsson has not been able to take the full advantage of the benefits and the synergies from the acquired firm or due to the fact the integration process had been complex and inconsistent.
- All interviewed claim Ericsson has to be more flexible and agile to address the Systems Integration business, higher focus and attention from headquarters to this business is required and the effects to strategy defined and followed by Market units. In this aspect it is reported that there is a

perception of lack of identity from Ericsson when it comes to growing and leveraging on acquired services firms abilities.

- The interviewed suggest that having more accountability in the steering groups and an empowered spokesperson top to bottom in the multi structure organization is fundamental. Having a dedicated delivery resource/owner manager throughout the entire process is critical for a smooth absorption integration
- Identifying key talents and retaining resources strategies even before acquisition process, plays important step in supporting and ensuring a smooth acquisition
- There is genuine easiness of adhering to Ericsson culture, but there are extreme difficulty to adhere, adopt and consider the Ericsson internal processes, policies and in particular the inflexibility of the financial CRM/ERP systems and impact to the maintenance of acquired business
- Company E case through absorption integration model, synergies was clearly identified from beginning, smooth transition integration process was achieved, which has supported the perception of many as the best example and a reference for other M&A processes. Nevertheless there is feedback that considers that if a preservation model would have been used, such could have created even more value to Ericsson.

6 What is the best integration model?

The author has observed through this research, experiences sharing and empirical evidence that competitive advantage within the services is with availability of skills, knowledge and ability of resources, to hold right behavior, attitude, and importance of entrepreneurial and consultancy skill set. The support of appropriate agile structures able to meet the strategy is interdependent with the definition of the group culture Ericsson intend to foster. The authors Jemison and Haspeslagh (1991) have been considered in this paper on the concept of *managing acquisitions to create value through corporate renewal*. Bartlett (2003) covered the roadblock to corporate transformation in managing people for competitive advantage as companies trying to implement, third-generation strategies, supported by second-generation organizations and with first-generation managers and his lesson on corporate transformation holds a simple basic truth, *"You cannot renew a company without revitalizing its people"*.

6.1 Symbiotic Integration Model

After consideration of the findings both from the questionnaire and through the information covered in the literature references to the Ericsson case, the environment considerations, the following methodology will be used to provide a recommendation. Nevertheless the author can state that the best integration model is the one that allows the creation of value. If in acquisitions Ericsson is able to achieve a symbiosis model between strategic interdependence where 2+2=5 and are able to assure the organizational autonomy required this win-win situation is obviously the best integration model. As Jesmison and Haspeslagh (1991:149) define this as the *most complex managerial challenge*. Where substantial transfer must take place at the same time that acquired capabilities need to be preserved in an organizational context that is different from the acquirer's - Corporate renewal. Coexistence and mutual dependency demands active balance in between the two forces both aiming to create value. In Jemison and Haspeslagh (1991:222) research identify the companies that succeeded in this unnatural act were *those whose interface managers were able to shepherd a carefully evolving pattern of interactions.*

Begins with a preservation while the acquiring company made changes on its own organization, the acquiring company move it to encouraged interactions between the two companies (preferably on initiative of the acquired) *reaching out than reaching in.* Finally strategic control over the acquired firm was gradually affirmed at the same time that operating responsibilities of managers of the acquired company were increased. Process of Swapping operating responsibility for strategic control, the process set the stage for gradual amalgamation of the organizations, which is the essence of symbiotic acquisitions (Jemison, Haspeslagh: 1991).

It is a solution to meet the problem considered in this case study. However as it has been stated it is an unnatural act that depends heavily on experienced, open minded and trustworthy unbiased individuals, throughout the entire organizations of both acquiring and acquired to bear a challenge that demands time, effort and investment which is perhaps beyond window of opportunity and would not meet the business goal. It should however be carefully considered as a practice and ponder its applicability in a case by case of future Ericsson Mergers and acquisitions processes.

6.2 Natural Act

As it has been debated in this paper the business reality demands managers to operate and decisions under pressure. Time is always a constraint. The main recommendations from the senior experience interviewed were the following:

- *"Identify resources competences, skills and abilities (from CEO to operational engineers) of the company to be acquired should be conducted early in the process."*
- *"Adapt and develop ERP/IT systems, sales processes, Opex, Human resource managament and processes, to meet Systems Integration business needs and reality."*
- *"Given the current market volatility (2009), Ericsson should only acquire companies, after ensuring that the sales opportunities are assured that customers will contract Ericsson, as the means to create the business."*

6.2.1 Systems Integration Business

The positioning of the Systems integration business using Porter's 5 forces model (Porter: 1985) (see Illustration 11) determine position Ericsson as either a new entrant or as a already existing supplier *(review section 3.2.1 convergence between telecom and IS/IT)* independently of the case Ericsson is not creating a new market, but rather dipping into a *red ocean* (Kim and Mauborgne: 2005) where there is a war of attrition, by which traditional economical models, the one with the biggest installed base, highest market share will be able to rule out its competitors. IBM, Accenture are among the "new" competitors to face as well as all the local IS/IT small businesses which for years have adapted and lived a reality of soft commoditized delivery of services and goods. This area with high returns of software solutions, where a balance of scale, skill and consultancy profiles, swift operational processes are determinant to grasp the whole industry attractiveness.

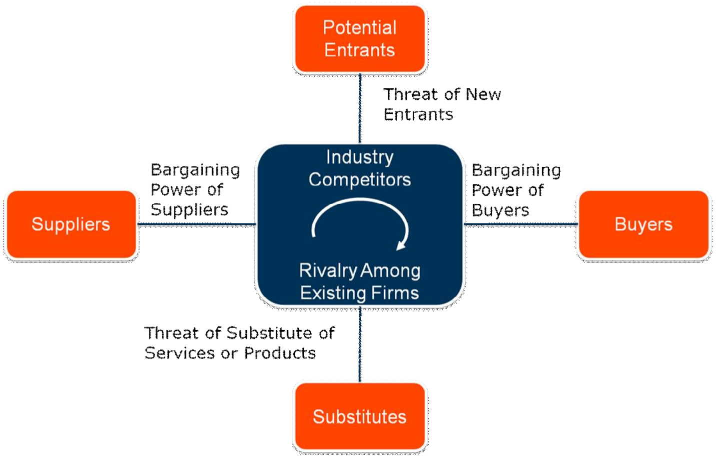

Illustration 11- Porter Five forces (Porter: 1985)

From the evidences gathered and the recommendations from the interviewed the author was able to construct the following diagrams on resource base analysis (Antonio: 2008) and one of the cause-and-effect using Ishikawa diagrams (also called fishbone diagrams). In the first Ericsson resources and capabilities are assessed and recommendations towards a competitive advantage are brought to provide information for a strategy formulation. On the second diagram is split in two components the first (left hand side of Illustration 13) assessing the reality today to address the SI business and the second (right hand side of Illustration 13) the preferred practices and recommendations from interviewees and the literature covered.

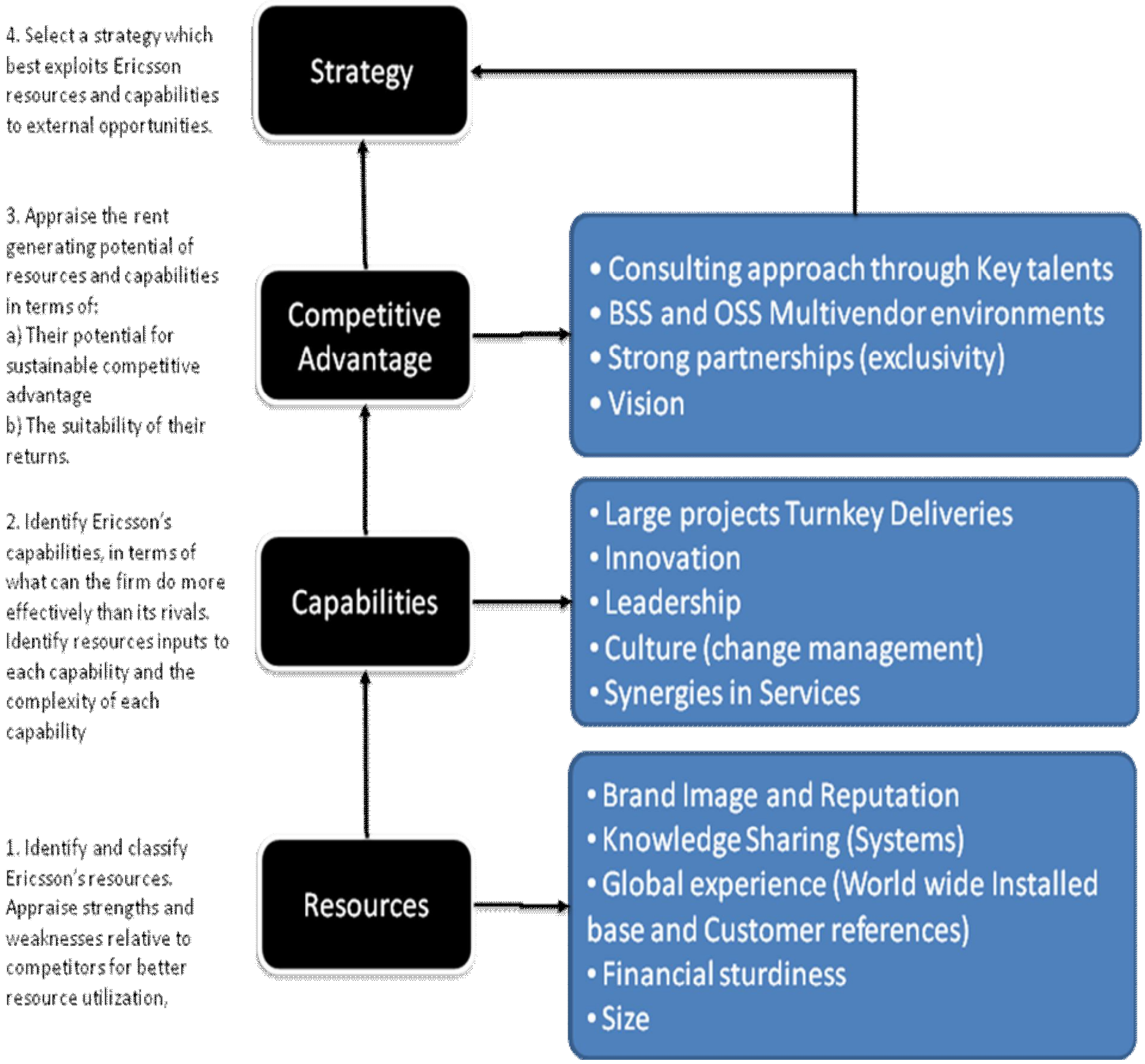

Illustration 12- Resource Based Analysis (Antonio: 2008)

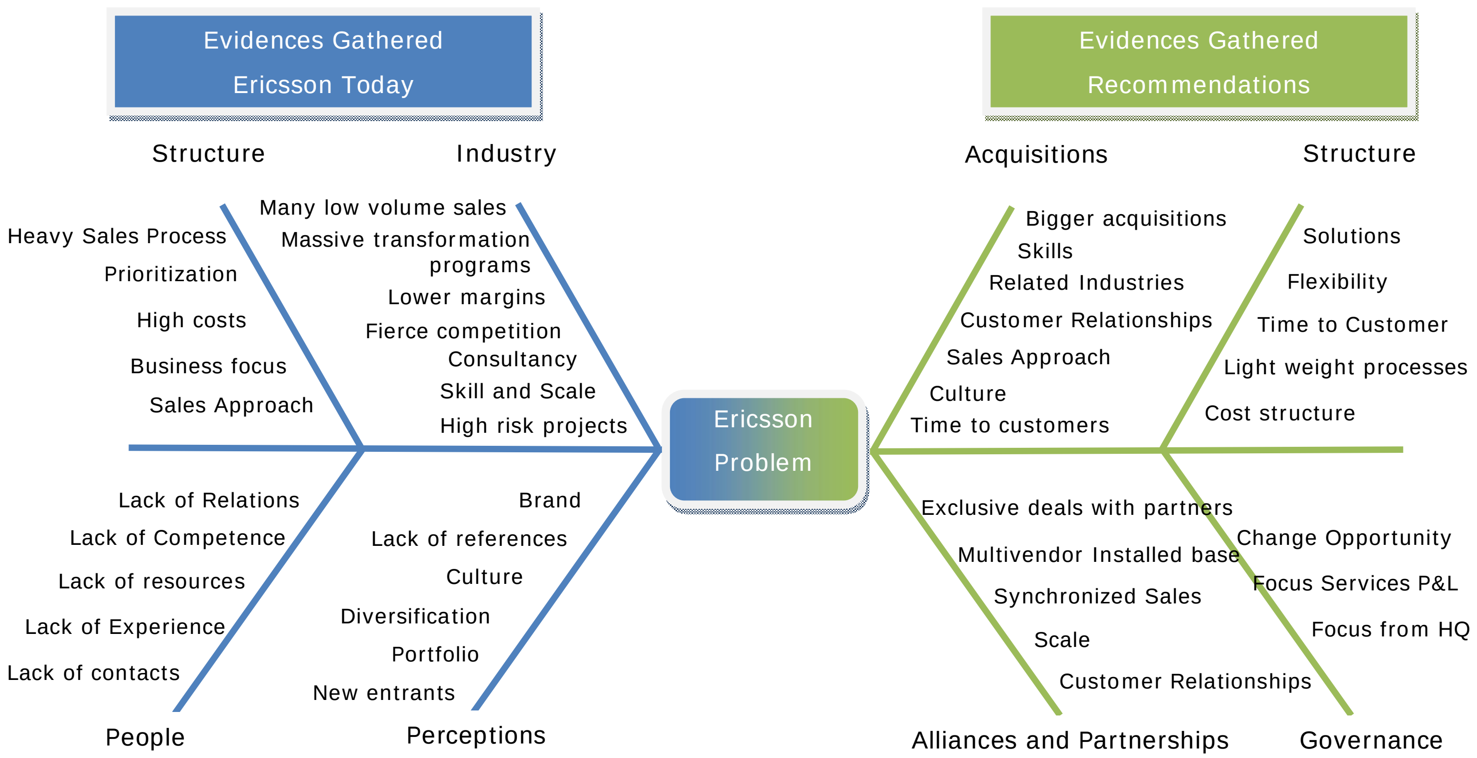

Illustration 13 - Cause Effect Analysis (Ishikawa Fish bone: 1969)

6.3 Scenarios

There are several scenarios to be considered as to which tactical option to follow on the integration model every case in Ericsson. The author as raised the awareness to benefits and concerns of the symbiotic model in the Ericsson environment, as Jemison and Haspeslagh have stated *"we don't suggest there is one best way to integrate each acquisition. Good performance is also affected by consistency and discipline in execution of what is ultimately a managerial choice."*

It is the simple reality that the author has bearded to witness throughout the research of this assignment. It has been visible the successes and failures, the advantages and disadvantage of each of the models, whether absorption, preservation or hybrid integration models. It is of value to consider the sum of recommendations identified throughout the analysis in this paper and conclusions which rely on the essential aspects:

- Law of the karma "so *thou sow, thou shall reap*"- Ericsson will need to continue carry out the investments in order to rejuvenate and diversify the services business.

- Strategy depends on structure
- Structure drives behavior
- Leadership crafts structure and strategy
- Culture defeats strategy
- Rejuvenation – companies, like trees get old. (1) Prunning, (2) transplanting, (3) replanting from best fruits, (4) find new fields and new species and (5) networking, are all activities required by managers.

6.3.1 Bigger the better

A possible scenario to meet the objectives and the considerations of Ericsson business and corporate wise would be to consider (1) an acquisition of a large multinational firm or segment with sizable market share within the IS/IT arena with considerable references in the telecom operators, (2) Consider and evaluate the impacts of moving all Ericsson SI activities into the acquired company, while defining a preservation integration model to ensure assets are able to meet the expected value and except for the acquirer's brand which should be replaced by the Ericsson brand for the sake of unity and awareness.

A few thoughts of concern have to do with identification of a potential candidate firm available in the market for acquisition and evaluate the binomial relation price vs synergies regarding the ability to leverage on Ericsson's size to achieve a higher value than the two firms operating separately *(2+2=5)*. A concern which demands careful assessment and stepped approach is related with the movement of people. The objective is to create value without neglecting the impact of staff motivation while addressing this change management. Such process demands assessment and alignment of people careers, their functional roles and responsibilities, their continuous development, their benefits, salaries and pensions and overall security as well as job satisfaction, that they are working for Ericsson. In this scenario the relevant consideration would be to have Ericsson able to promote a preservation model by which resources would adapt to the established processes of the acquirer.

6.3.2 Ericsson Consulting Systems Integrations Services

The following scenario is of a dedicated P&L services company part of the Ericsson group. An Ericsson company, living under the Ericsson brand, with a refurnished structure focused consulting solution services practices, supported by lightweight flexible ERP/CRM, with low overhead (IT, facilities, HR) costs, with a agile and effective dedicated sales force focused on services sales. The consulting systems integrations services company would have the ownership, accountability and leadership to conduct the necessary M&A activities and determine the most appropriate integration model of the Ericsson acquisitions. The segregation between Ericsson product sales and traditional services would allow the unit to build the suitable focus in the IS/IT business moving away from the today's dominant competences, drive *consulting* behaviors and promote a culture of *can do*. The evidences provided in the acquisition samples where preservation model has been chosen, promoted this practice and results have achieved and exceeded the expected value returns.

Evaluation of the cost-reducing operating synergies lead to economies of scale, it is considerable theoretical fact that while considering the whole Ericsson (includes all business segments and market units, total number of resources) have considerable gains to spread the overhead costs and the higher the number the more will be the ability of the company to reach a minimum cost per head. However after the minimum value has been reached diseconomies of scale may arise as the firm experiences problems to ensure coordination of large/multi diverse operation has it has been reviewed and reported on the concerns of the in the current structure. Some economists cite as evidence the continued growth of large multinationals companies such as Exxon and General Electric, which have exhibited extended periods of growth while still paying stockholders an acceptable return. Other economists challenge that such firms would be able to provide stockholders a *higher rate of return if they were smaller, more efficient companies*[6] (Gaughan, 2007).

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[6] Excerpts based on case study Consolidation in the Cruise Industry and the pursuit of economies and other synergies.

In this scenario the relevant consideration would be to have Ericsson able to promote an absorption model by which resources would adapt to the already efficient, lean machine of the Consulting Systems Integration Services Company. In perspective it is an approach which is misaligned with the One Ericsson directive, however given the specificities of each segment, it would be the One Ericsson within the global Ericsson Consulting Systems Integration Services Company.

6.4 Alliances and Partnerships

Whatever the scenario may be selected it is important to highlight the opportunities of networking and establishing alliances with the main suppliers (largest set of references and installed base) of business support systems and operational support systems suppliers. The reality is that the focus on utilization and billability of the services companies is the priority of services P&L. To be able to address the scale and achieve the massive transformation deals knowledge of multivendor, multi technologies accesses to partners for additional delivery assignments and populate the sales funnel are a necessity and a main concern.

Our customer's networks and operations are moving into a convergent world, so there is a need (see section 3.2.1 convergence) to have approach to service and business in the same manner.

The guidelines and policies for their OSS solutions were vertical and were established in times when a service was usually built on a single platform of a single vendor doing almost everything. However as seen today, services are more complex, as these rely on multiple domains, and at multivendor level. The IMS and the convergence of networks are bringing customers a lot of new challenges particularly when they have 4Play services, cross-selling, up selling, bundling, where even when there is a movement to a complete seamless way of using services in the three screens this will definitely pose the challenges in their OSS systems, which as the offering, so must the services be completely convergent.

So if the services are driving the need for the technology, or the availability of technology is allowing for seamless ubiquitous experiences, not only their networks, OSS, IT/IS, the organizations structures will also definitely change. Ericsson has the opportunity to move from looking only from node assurance/resilience, vertical solutions performance monitoring teams, into the "real" service assurance, service performance since services are transversal to a set of nodes, solutions, networks… all in favor of a good experience for users. Having competitive (cost/effective) solutions where Ericsson services and partners can meet the customers challenges, by offering solutions with service monitoring, service root cause analysis, preemptive actions to warn and act on problems, resolution of storms advocates a principle by which problems will always occur, focusing on the cause incidents will improve operational efficiency, operators will be able to inform the end users (reducing costs on TT/customer care attendants), ability to manage users expectations which will consequently increase our customers end-user satisfaction and ensure churn reduction. OSS solutions must meet these and other goals. This is our competitive advantage.

Alliances with exclusive service delivery in systems integration are solutions, to achieve it is required to (1) Identify which partners have convergent offering, (2) identify which of these partners have the installed base/references where they have the customer intimacy and power base, (3) establish a go-to market model, and teaming agreements from sales pitch and opportunities to delivery Prime, sourcing, project (4) while establishing a systems integration organization already with a set of acquired asset competences the partners solutions (5) nurture the skill development as well the growth in scale from simple services starting from the node level, up until massive BSS and OSS transformation programs.

Limitations of the Research and Open topics for development

The analysis of the problem and the intangible aspects nature that it includes has demanded continuous analysis of additional literature and further questions were continuously raised, after the questionnaire closure, during analyses and the writing of this paper. The limitation of time, access to resources, and access to sensible and confidential information, the prerequisite to involve different individuals responsible or involved in acquisitions were decisive to the reach the accrued results in this paper. There are particular aspects which would further provide insight and sustain tangibly and objectively the identification of the integration model to be recommended to Ericsson. Besides the relevance of problems found in section 2.1 Problem Description, the following topics were found to be of interest to develop more extensive research:

- Creation of Key performance indicators for each of the perspectives (economic, market, organization and people, to name a few), before and after the integration process of the acquisitions.
- Creation of a model to correlate the different key performance indicators into key quality indicators. Objective is to permit a rating system to evaluate the overall performance and benchmark the various alternatives.
- Observations of the variables relationship between the structures, the behaviors and end results.

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