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THE VALUE-DRIVING ACQUISITION PROCESS – CONCEPTUAL FRAMEWORK & BUSINESS CASE

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Abstract: The article addresses three challenges in the M&A theory and practice: poor value orientation, lack of integrated approach to an acquisition process, and limited integration scope. It integrates the existing literature reviewing existing models as well as the author's merger experience. This paper proposes a novel acquisition framework addressing the challenges and gaps in the M&A value-creation process. The framework emphasises the role of corporate strategy as the key value creation formula in setting the right context for a merger. It also reiterates the importance of a performance management system assuring accountability and alignment at every stage of a merger including two new process stages. The model also offers a novel perspective on merger integration challenging the traditional approach and promoting earlier initiation of integration efforts. The paper also demonstrates, through a business case, a practical application of the proposed framework by a serial acquirer.

Keywords: acquisition process, business case, integration, Performance Management System, value creation, value-driving.

1. Introduction

Nearly every paper dedicated to the topic of M&A starts with stating the following: the majority of acquisitions do not create value for the buyers. It was true in the 1980s, 1990s, 2000s and continues to be an elusive target for many acquirers today

(Agrawal, Jaffe, and Mandelkar, 1992; Bieshaar, Knight, and van Wassenaer, 2001; Borodin Ziyadin, Islyam, and Panaedova, 2020; Porter, 1987; Kelly, Cook, and Spitzer, 1999; Loughran and Vijh, 1997; Schoenberg, 2006; Walker, Kengelbach, Dawson, Hansell, and Bathia, 2016; Zollo and Meier, 2008).

Despite decades of evidence showing the poor track record of acquisitions in driving abnormal returns companies continue to allocate trillions of dollars annually into merger activities. This peculiar conundrum of corporate finance has attracted numerous researchers investigating the haphazard returns and the reasons for such a dismal performance.

There seems to be a general consensus on the overall causes of acquisition failures such as the strategic, organisational and financial mismatch, and poor integration execution (Gadiesh, and Ormiston, 2002; Greenwood, Hinings, and Brown, 1994; Miles, Borchert, and Egan Ramanathan, 2014; Shelton, 1988). Yet the mere understanding of those general sensitive areas such as a wrong choice of acquisition target, paying too much for it, and/or mismanagement of the integration process, do not lead automatically to better executive decisions as evidenced by improving returns from M&A.

The article has two main objectives. Firstly, it aimed to uncover and synthetise key gaps contributing to poor acquisition process execution resulting in subpar value creation. This is achieved through a critical, multidisciplinary and multifactor review of M&A literature and popular acquisitions frameworks in the context of their value creation impact. Mergers are complex undertakings that can and ought to be viewed from many angles covering such aspects as strategy, organisation, finance etc. The common denominator for these, however, need to be the value creation objective, which is the ultimate business goal. Consequently, this is also the main lens through which the M&A literature review for the purpose of this paper was conducted.

Secondly, the article also attempts to provide a comprehensive and conceptual acquisition model addressing those gaps. The proposed, value-driving acquisition model was developed based upon a successful evolution and execution of a merger process used by AmRest (business case study). This leading global restaurant operator and serial acquirer experienced a successful transition over the years toward a more value-driven acquisition process. The company's successful track record in M&A execution was a major contributor to its unprecedented growth in capitalisation between 2013 and 2018. The validation of the novel acquisition framework presented by the author was also achieved by cross-referencing it to the major findings and postulates derived from the M&A literature review. The financial underperformance of M&A has resulted in billions of dollars of value--creation potential being wasted annually. In this context, the presented framework aims to enrich the existing body of knowledge as well as enhance the execution of acquisitions toward their ultimate objective, i.e. value creation.

The novelty of the value-driving acquisition framework proposed in this paper rests upon four particular dimensions which, while critical to the ultimate success

of a merger, have been largely ignored in the M&A literature so far. They include the application of **corporate strategy as the guiding principle** for all acquiring activities and the usage of **value-driving metrics** at different stages of the whole process. The model also emphasises the existence of an **accountability structure** by aligning the **Goals, People and Incentives** towards the generation of total shareholder return. While addressing the execution aspects of an acquisition the author also challenges the common approach of delaying integration activities until after signing of the deal. Such a mindset is well-reflected by a common term describing that stage as Post-Merger Integration (PMI). Lastly, the framework was constructed upon a **business case, modelling a solution** of a company planning and executing several fully-fledged integrations.

In the opening sections (Chapters 2.1-2.3) the article presents a theoretical background on the evolution of various approaches to M&A. After presenting their merits and limitations, a more comprehensive integrated approach was introduced along with certain unique features and roadblocks of an acquisition process (Chapter 2.4). Chapter 2.5. concludes with four postulates for an improved and value-driving merger process. Section 3 presents a brief and chronological overview of the most popular acquisition process models, followed by the introduction of the author's value-driving acquisition framework in Section 4.

In the conclusion, the application of the author's conceptual framework is demonstrated (Section 5) in the business case of AmRest, a leading independent restaurant operator and a serial and successful acquirer between 2005 and 2018. To better illustrate all the critical aspects of the model, a full integration (absorption) scenario was assumed in the entire paper. While not always a prerequisite for a successful integration, the scope of the absorption scenario helps to demonstrate the key benefits of the comprehensive and value-driving acquisition model introduced in the paper. The terms M&A, acquisitions and mergers were used interchangeably.

2. Background

2.1. Three perspectives of an acquisition

The main thesis of this paper is that all too often the M&A process is approached and handled in a fragmented and simplistic way both in the literature and business practice, often causing its suboptimal performance. Its non-routine and complex nature further lowers the odds for achieving the desired outcomes in terms of value-creation impact.

Before the seminal work of Haspeslagh & Jemison (1991), which introduced a more comprehensive process approach, the M&A literature tended to emphasise distinct areas of specialisation. The most common of them focused on analysing deals from a strategic, organisational or purely financial perspective – summarised below.

2.1.1. Strategic perspective

Assessing strategic fit, sometimes referred to as complementarity, between the buyer and the target, is basically determining the level by which a specific acquisition target might help the buyer achieve its strategic goals. When assessing it, one can focus on identifying certain desirable gaps needed to be filled as an acquirer, such as a new technology, know-how or other expertise. One may also look for similarities that help realise various synergies in such areas as operations, sales, distribution, procurement, and G&A (Lubatkin, 1987; Seth, 1990; Singh and Montgomery, 1987).

Common sense and various studies suggest that companies from related industries operating in similar environments should see better economic outcomes after their merger. In theory it should also be much easier to manage in a familiar industry than venturing into uncharted territories. Such a strong positive correlation between strategic fit and value creation has been proven multiple times by concrete business cases such as Pfizer & Warner Lambert (1999) – $90B, Royal Dutch Petroleum & Shell (2004) – $95B, or more recently the acquisition of Whatsapp by Facebook for $22B (2014).

Strategic fit, however, despite the creation of synergistic potential is not sufficient. It may also inadvertently create some unexpected challenges, such as a bidding war among various industrial contenders (Porter, 1980).

2.1.2. Organisational perspective

A strong organisational mismatch, despite a good strategic fit, has derailed several transactions such as the spectacular failure of the merger between AOL and Time Warner in 2000 (two media companies; $182B).

Identifying the insufficiency of a good strategic fit to create value in M&A another important perspective of an organizational fit” has been recognised. It denotes the level of similarity between two or more entities in such areas as their business cultures, management practices, organisational structure etc. The compatibility of cultures has profound implications, particularly on the integration process leading to much lower internal resistance and the smoother resolution of potential conflicts. Extensive research the confirms strong relation between organisational compatibility and the financial performance of the mergers (Buono and Bowditch, 1989; Chatterjee, Lubatkin, Schweiger, and Weber, 1992; Datta, 1991; Nahavandi and Malekzadeh, 1988; Napier, 1989; Sirower, 1997; Schweiger, Csiszar, and Napier, 1993; Stahl and Voigt, 2008; Weber and Fried, 2011).

In essence advocates of both approaches argue that when two businesses share common strategic and organisational traits the likelihood of their successful merger is much higher than for organisations that are less similar.

2.1.3. Financial perspective

A third distinct way of analysing M&A is to look at them from the financial perspective. Through such a lens acquisitions are viewed mainly as financial deals.

Consequently, the focus is predominantly on transactional aspects such as negotiating the right price in order not to overpay for the target, choosing the right form of payment or tracking the transaction impact on the share price of both the acquirer and the target (Anslinger, Copeland, and Thomas, 1996; Fuller, Netter, and Stegemoller, 2002; Hayward, 2002; Inkpen, Sundaram, and Rockwood, 2000; Sirower, 1997).

The financial approach has received a lot of coverage in both the M&A literature and business practice. This is a common view taken by financial buyers such as LBO firms or private equity funds. From a value-creation perspective it is the lynchpin of a healthy acquisition process objectifying its intentions, tracking process performance and measuring end results. Too much financial focus in mergers, however, may also disrupt the integration efforts. Such was the case of the Heinz and Kraft merger in 2015 ($50B). The two major financial shareholders of the acquirer, i.e. 3G, a large Brazilian investment company, teaming up with Warren Buffett's Berkshire Hathaway, put too much focus on cost-cutting measures, while losing sight of some necessary investments into the refreshment of some old brands. As a result, MVA (Market Value Added), which measures how much wealth is created over and above what shareholders put into the company, declined by $20B within three years following the merger (Creswell, 2019; Tully, 2019).

Interestingly the financial context is widely omitted in non-financial M&A papers and conceptual frameworks dedicated to organisational or strategic issues. Similarly, fund managers often overemphasise this perspective, whilst lacking organizational sensitivity.

2.2. Limitations and pitfalls of a narrow M&A focus

While each of the above perspectives has a lot of merits it is not by itself sufficient to cover all the critical elements of a successful acquisition. A merger, which is well-designed in terms of strategic match, can fall apart through the negligence of the organisational aspects which will impede the whole integration process. Conversely, even the best management and organizational fit between two or more entities cannot compensate for the lack of strategic alignment between them. Losing financial sensitivity at any stage of the M&A process can also undermine its ultimate goal of value-creation.

Such a wide-spread specialisation in M&A research may lead to a 'unification trap', a phenomenon common in social sciences, including economics. Through a self-reinforcing process, it leads to a lack of balance between the existing knowledge and the new ways of thinking. The specialised approaches presented earlier enrich the M&A literature providing significant insight and deep expertise. However, they may create a 'specialization trap' reinforcing certain well-established thought patterns (Knudsen, 2002; Sangree, 2020). This, in turn, may cause the suboptimal execution of the M&A process, resulting in poor value-creation impact. As demonstrated later

in the paper, a much more general approach to modelling and managing a merger can be more efficient in addressing some of its key inherent challenges.

2.3. Acquisition from a process perspective

Viewing acquisitions from the three perspectives summarised in the previous section carries a lot of merit, helping to make the right business decisions and achieve the desired outcomes. Although such a specialised analysis has improved the understanding of each of those motives and their implications, a much more comprehensive perspective is necessary. It is necessary to recognise the complex context in which a merger takes place and the interdependencies among the three perspectives.

Approaching an acquisition from a process perspective has enriched the theory and practice of M&As (Jemison and Sitkin, 1986), achieved through the integration of all the perspectives. The M&A process includes all the steps necessary to bring two or more companies together with the aim of maximising synergies to ensure that the deal lives up to its predicted value (Patel, 2020).

This process bears some similarities to other typical business processes such as procurement, hiring, capex, and new product development – to name just a few. It takes place in a strategic and overall business context of the acquirer and the target. Unfortunately, it is often too detached from that reality, which the author elaborated more on in the next paragraphs.

Though similar to other routine business process the acquisition process has some distinctive elements, such as:

- strategic nature;
- multifunctionality;
- involving multiple stakeholders;
- non-routine (for most acquirers);
- high complexity (cultural, structural, integrational);
- mostly sequential with parallel and counter-sequential aspects;
- high interdependencies among various phases;
- relatively high visibility and impact on value creation.

As can be seen above, these features comprise all the three perspectives discussed in the previous section. They also bring out some other characteristics which a specialized viewpoint does not cover, i.e. multifunctionality, multiple-stakeholder impact and the high level of interdependencies among various phases.

2.4. Challenges in M&A processes

Jemison and Sitkin (1986) pointed out two other very consequential features of an acquisition process, namely its discontinuity and fractioned nature. The former is often caused by the discrepancy between who is accountable for various stages of the whole process such as due diligence, deal-making and integration. Outsourcing of an integration task to an external party may further exacerbate lack of the process

continuity and its accountability. The researchers also raised another relevant point which this author observed in his M&A practice over the years. Managers who are involved in M&A projects often treat those non-routine obligations differently from their daily strategic management accountabilities. The main distinction often lies in neglecting the follow-through and thinking of a merger as a synoptic and rational process which had been justified strategically by the key decision makers. In this way they remain oblivious to the intricate and softer aspects of the acquisition process (Jemison and Sitkin, 1986).

The fractioned nature of an acquisition process is caused by the varying interests of different stakeholders involved in it, the most obvious being the divergent interests of the seller and buyer regarding the price. Others may include CEOs grandiose motivations to expand their business empires, in contrast to their employees mostly being concerned about their job security and basic stability. As long as the impact and the rewards differ, it is near impossible to find common ground.

3. Review of acquisition frameworks

This section reviews a selection of existing acquisition-process models. The key criterion used was how those frameworks support the value-creation objective of acquisitions, and how well they address the key process challenges introduced in the previous section. More specifically, the author examines the place and role of corporate strategy as well as the presence of accountability elements reinforcing value-creation. The example presented below is arranged based on the popularity of those frameworks as well as their chronological evolution over the past 50 years.

3.1. Traditional model

The oldest of the presented frameworks dates back to 1970 and covers the four typical stages of an acquisition.

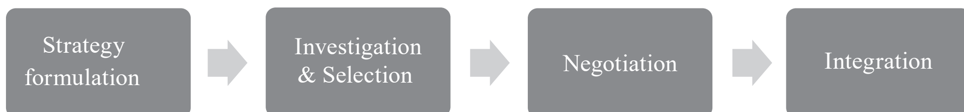

Fig. 1. Traditional model

Source: (Howell, 1970, pp. 68-69).

This is a traditional, simple and fairly comprehensive model with sequenced stages. Perhaps due to its simplicity it is still frequently used today by many business practitioners. What is notable in it, is the inclusion of strategy formulation at the very beginning. The author, however, defined strategy formulation in a more tactical way outlining various scenarios to achieve growth through acquisitions such as business

diversification, targeted deals or pursuing a series of related businesses (Howell, 1970). While those decisions have some strategic implications, by themselves they do not express the uniqueness of a given corporate strategy and its formula for value creation. The latter is also a missing element in the above model.

3.2. Strategic interdependence vs organisational autonomy model

Next is the most often quoted acquisition framework in M&A literature. Rather than capturing the whole acquisition process, it is a high level integration type model developed by Haspeslagh and Jemison (1991). It illustrates four basic merger scenarios according to two dimensions, i.e. the level of strategic interdependence between the acquirer and the target, and the need for organisational autonomy of the latter.

		Strategic interdependence	
		Low	High
Need for organisation autonomy	High	Preservation For heterogeneous merger	Symbiosis For horizontal & vertical mergers
	Low	Holding For horizontal & vertical mergers	Absorption For horizontal & vertical mergers

Fig. 2. Strategic interdependence vs organisational autonomy model

Source: (Haspeslagh and Jemison, 1991).

The left side of the table represents the Holding and Preservation scenarios, which require none or very little integration related to some basic financial and management reporting. On the other side, there are two cases (Symbiosis, Absorption) of high strategic interdependence calling for much deeper unity between organisations. In the most extreme situation a full integration of all the functions, key processes, systems and people is needed.

The above framework was quite a breakthrough in M&A literature at the time of its publication thirty years ago. It brought a more integrative approach, analysing M&A as a process and recommended differentiated approaches to integration, arguably referred to as M&A strategies.

The shallow understanding of M&A strategy and lack of addressing value--creation aspects currently limit the practical application of this model not only for the whole acquisition process but also for the pure integration workstream.

3.3. Pre-merger vs post-merger framework

In the author's view the pre and post-merger framework presented below was a conceptual change in the development of M&A theory. In essence, this model breaks down the acquisition process into two phases: pre-merger and post-merger. The first of them comprises elements typical for transactional aspects, such as attracting potential targets, their evaluation, price and payment terms negotiations. It also emphasises the role of pre-transaction communication, and also some strategic and organisation fit aspects. The post-merger phase contains various integration related pieces such as the choice of integration scope, project team formation, emphasis of HR management, communication and PMI coordination. While it is a bit simplistic in delineating the acquisition process into just two major stages, it encapsulates a few vital and novel elements, e.g. the role of communication, acquisition team and incentives. It is a fairly comprehensive model integrating such areas as strategy, organization, finance and showing also certain links between them.

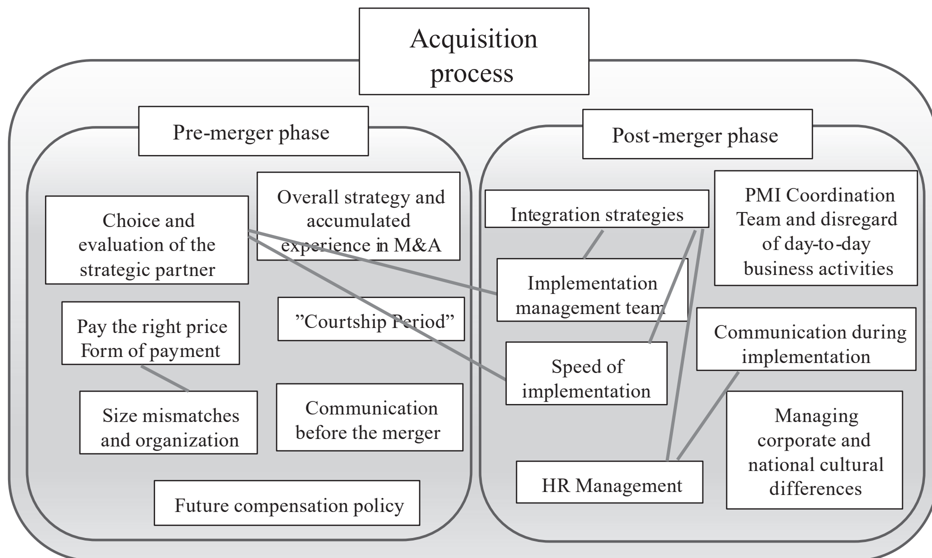

Fig. 3. Pre-merger vs post-merger model

Source: (Gomes, Angwin, Weber, and Tarba, 2003, p. 28).

However, just like the previous frameworks, it lacks the performative and value-creation elements. The corporate strategy context, referred to in the model as "overall strategy", is loosely defined and somewhat detached from other activities. An example of this is the lack of link between strategy and the choice of a target, as well as the selection of relevant integration strategy. It also follows the popular viewpoint in M&A literature by placing integration team aspects in the post-merger phase. As discussed in Section 3, such an approach may cause problems with process continuity.

3.4. Five-stage model

The Five-Stage Model concludes the review. Its author, S. Sudarsanam, proposes five, highly intertwined phases. In contrast to the previous models the starting point here is the corporate strategy which, rather than the M&A tactics, should set the tone for the whole process. Another distinct feature of this framework is bringing the aspects of the proper organisation for acquisitions to the forefront and ahead of its deal structuring phase. Such an emphasis on early team formation brings a refreshed perspective into the whole process. Another noteworthy element is the presence of a post-acquisition audit. An acquisition process, just like any other business process, needs to be monitored in terms of its performative aspects. Such feedback is vital to determine the qualitative and quantitative aspects of a merger including its value--creation impact.

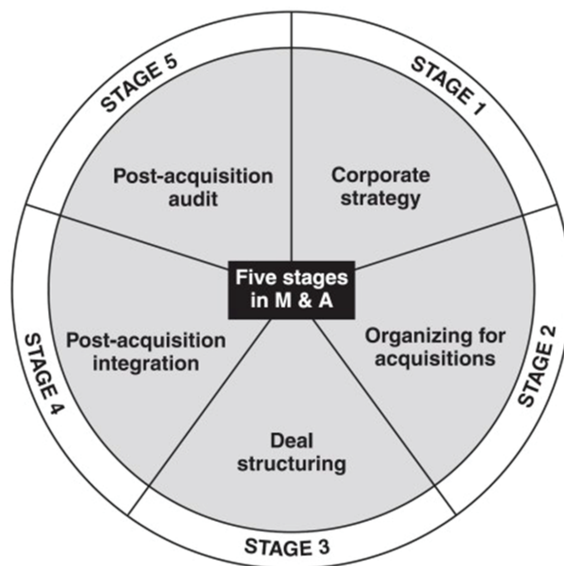

Fig. 4. Five stages of the M & A process

Source: (Sudarsanam, 2003, p. 3).

The above model adds a critical performative aspect to the whole process, which is missing in the previous frameworks presented.

In terms of constructive feedback, the five-stage model is similar to the previous frameworks' understanding of corporate strategy, and its role in shaping the M&A strategy and integration is rather narrow here, and it is not particularly expanded throughout other stages of the process, either. An example of such a deficiency is the lack of value-creation focus (choice of goals, metrics, accountability system, etc.) in the earlier acquisition stages such as corporate strategy and organisation for acquisitions. In the same vein delaying the M&A evaluation in terms of its value--creation impact until the very end of the process is not sufficient to properly guide various merger workstreams, particularly in the integration phase stage. Similarly to the previous frameworks it also reflects the common approach by placing integration efforts after deal-structuring. While the integration execution indeed comes naturally after a deal is closed, delaying the integration efforts impairs the whole the execution of the whole acquisition process, as discussed in the next section.

3.5. Key conclusions and postulates

In conclusion of the M&A literature review in Sections 2 and 3, certain critical gaps in acquisition process analysis and execution were identified.

First and foremost, approaching a deal with the mindset of the acquirer's corporate strategy is not a common practice. Very few models and frameworks refer to the core of corporate strategy, often replacing it with tactical aspects of executing or integrating a transaction. A simple or more advanced query in popular search engines or academic databases yields scant references on the subject of corporate strategy in M&As. Instead, often secondary strategic aspects are discussed such as the choice of optimal integration model, or defining some strategic goals for an acquisition. Albeit important, those aspects are not the primary elements of a well-defined strategy, but are rather certain tools and tactics to realise the corporate strategy (Hopkins, 1987). This surprising finding perhaps suggests that corporate strategy is simply taken for granted by all the key players in the M&A process. A more pessimistic hypothesis might reveal that corporate actions and strategy tend to be misaligned, or the former simply had not been defined nor communicated in the first place.

In personal and corporate life, it is easy to lose sight of what the bigger strategic picture is. What motives, values and visions, drive our actions. A well--defined corporate strategy along with value-driving objective need to permeate all organisational activities. Acting with a deliberate corporate strategy (Mintzberg and Waters, 1985) greatly increases the odds of achieving the original corporate intentions (Christensen, 1997; Christensen, Allworth, and Dillon, 2012), including the M&A objectives. That is why a successful and value-driving acquisition needs to be well embedded in the corporate strategy of the acquirer.

Secondly, the author has observed a tendency to approach M&A processes in a fragmented way. The most blatant example is dividing a merger into pre and post--transaction phases. Such an approach exacerbates one of the inherent challenges of such a complex and critical business process, i.e. its discontinuity. An acquisition process involves various players on both sides of the transaction, and while their contribution is important to the advancement of a merger project, they also bring their own biases, limitations, conflicting interests or simply their frustrations to the table. These natural human challenges need to be recognised upfront and managed properly.

To alleviate this, an integrated approach to the M&A process is postulated by the author. This entails adequate representation of those groups throughout various stages of a merger, led by a leader capable of navigating such a complex environment. The core of such an acquisition team needs to be stable and engaged in the process from its earliest stages. This will ensure process continuity, which is so critical to avoid typical process pitfalls.

Thirdly, one must be cognisant of the ultimate outcome of a successful acquisition, i.e. creating value for the buyer's shareholders. Interestingly, none of the frameworks reviewed refers directly to that vital aspect of any deal. The M&A literature comprises publications analysing value-creation aspects, yet when it comes to the actual acquisition planning and execution this topic is strikingly absent.

A proven way to reinforce value-driving mentality in a merger process is through the definition of a set of specific goals that are tied to both corporate strategy of the bidder and the particular expectations from a given deal. Once the corporate and M&A targets have been identified, they need to be cascaded to the key people in the acquisition team. This is a vital and often missing link in the M&A process. The literature covers at length the topics of business valuations, deal negotiations and post-transaction value-creation measurement. At the same time, it offers very little insight into the performative aspects of the M&A process. The existence and proper execution of value-driving performance management systems in companies has a huge impact on ultimate goal achievement. This is true for many routine business processes in sales, marketing, operations, finance and even HR, and also true for the merger process, where the value-creation stake is often extremely high.

A dedicated acquisition team with clear objectives and metrics brings the necessary accountability to the M&A process creation of coherent incentives systems, ensuring team alignment. Consequently, this can greatly lower the incidence of fragmentation described earlier in this section.

4. Value-driving acquisition framework

Based on the M&A process theory review introduced in previous paragraphs, this section introduces a novel, value-driving acquisition process framework. The model in question is both a product of multifactor and multidisciplinary gap analysis of

existing frameworks as well as the key postulates formulated in Section 3.5. in accordance with the peculiarities of the M&A processes discussed in Sections 2.3. and 2.4. It has also been tested, refined and validated in the business practice of a serial acquirer and leading independent restaurant operator, AmRest. Section 5, devoted to the AmRest business case, provides more detail on the evolution and examples of the practical application of this value-driving framework. This comprehensive framework features six stages of an acquisition process, as presented below:

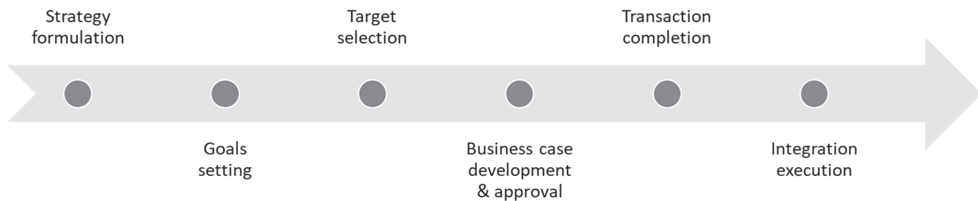

Fig. 5. Value-driving acquisition framework

Source: own elaboration.

As postulated above, the first and foremost element of any business activity including the acquisition process is clarity regarding the strategic context. In other words, a successful acquisition needs to be well-aligned with the corporate strategy of the acquirer. This is where the unique way to create superior value is defined.

A popular definition of strategy describes it as an integrated set of actions to create a sustainable competitive advantage in order to earn superior returns over the long term (Collis, 2008). Obviously, an integrated set of actions includes such activities as buying and integrating new companies. As demonstrated later, the existence of a corporate strategy alone may not be enough for running an efficient and value-creating acquisition process. The formulation of a specific M&A strategy for a company provides even better clarity on the objectives, scope and preferred ways to acquire and integrate new businesses. It is particularly helpful for organisations using the M&A function as one of their main growth drivers, and provides the answer to one of the most vital strategic questions in M&A: how will we add value to the new business?

Once there is clarity regarding the direction, scope and modus operandi, one can define specific SMART goals with measurable KPIs and targets which reflect the specific expectations for a particular budgeting year. A healthy set of corporate goals needs to capture a mix of leading and lagging business indicators. Balanced Scorecard, a popular performance management tool comprising four different perspectives (Financial, Customer, Internal Process, Learning & Growth), provides a very useful framework here (Kaplan, 1992). Naturally, corporate goals need to be cascaded into particular functions and business units, including the M&A function.

The remaining four phases: target selection, business case development, deal completion and post-transaction integration represent the execution part of the strategy. The author would like to highlight one of them in particular, i.e. business case development, a vital stage of the whole acquisition process connecting the strategic and executional components of an acquisition process. In this phase a particular transaction is validated in terms of its strategic, organisational and financial fit. Furthermore, continuity of the acquisition process is assured by obtaining necessary buy-in from key stakeholders and entrusting its further execution into the hands of a specific team with defined objectives to drive value creation.

The whole model is sequential in its nature. For it to serve its purpose certain actions such as strategy formulation must proceed others, which allows for some overlap of certain stages. This is particularly relevant for the integration activities. This stands in contrast with the dominant view in the M&A literature that integration gets initiated only after the deal has been signed. Such an approach is reinforced through the very expression "post-merger integration (PMI)" which is a common term in M&A phraseology. While one can trace back certain integration aspects as early as in the strategy formation, the actual integration activities are often initiated already in target selection phase – well before a deal is signed. Typically, they take the form of initial contacts between representatives of the potential partners, or field visits aimed at conducting preliminary commercial due diligence. The quality of those preliminary interactions often sets the tone for the remaining part of the integration efforts. The novelty of the model proposed above can be attributed to the following aspects:

- reinforcement of the corporate strategy role as the overall business context for conducting the M&A process;
- emphasizing the performative and value-driving nature of the acquisition process through the setting of goals and relevant metrics;
- connecting the strategic and execution aspects of an acquisition by introducing a business case development stage;
- strengthening M&A process continuity and accountability by establishing the business case owner and project team prior to deal completion;
- accentuating the initiation of integration efforts prior to a deal execution.

The key premise of the proposed model is enhancing its effectiveness in supporting value creation, an often-elusive result of the majority of acquisitions completed annually. The secondary aspect is augmenting its integration ability, a vital and frequently neglected element of the whole M&A process. These two aspects of value creation and integration are further deconstructed below.

Starting with value creation focus is often a missing element not only in M&A theory but also in practice. It tends to appear at certain acquisition stages, particularly during the initial deal conceptualisation, only to be lost throughout the remaining phases. Once the funds have been committed through signing the deal, very few companies go back to the original business case assumptions and perform

transactional post mortems or conduct regular performance reviews (Williams, Ackermann, Eden, and Howick 2001). Such a loose approach compromises the ultimate performance of any business process, including that of an acquisition. Too much focus on doing as opposed to reviewing activities is often caused by the hectic corporate reality and growing backlog of projects (Pitagorsky, 2000). It not only compromises the effectiveness of ongoing processes, but also deprives organisations of valuable insights and continuous learning (MacMaster, 2000).

The proposed model shows value-creation aspects as they evolve throughout each of the phases. It starts with a definition of the overall strategic objectives, specific investment criteria and long-term financial objectives. Those strategic guardrails help to establish specific M&A objectives, which are crucial for proper target selection. It is often here where many of the acquisition frameworks have their starting points. The M&A strategy and objectives, however, should only be a derivative of the overall corporate strategy. That is why the discussed framework presents both a broader corporate and narrower M&A strategic context of the acquisition process.

Bringing strategic discipline to the fore greatly aids to define a specific profile for an ideal M&A target and the subsequent screening and evaluation. A clear set of criteria allows to assess the strategic, organisational and financial fit of a potential object of interest, and in particular, the last of the three is further evaluated through a development of a business case. Notably this very stage has not been identified in any of the frameworks presented earlier in this paper. From the perspective of an acquirer, it is a fundamental pillar of any acquisition. The development of a business case with various scenarios serves multiple objectives. In addition to the assessments of the target's fit, it has a few other vital implications and defines very specific targets in terms of the expected value creation, as well as assigns those objectives to a dedicated project team. Its internal approval by various stakeholders such as the Board, project team leader, relevant functional heads give a clear mandate for final deal terms negotiations. Lastly, once a transaction is signed, the integration team and project steering committee have a clear road map in the form of a business case for the integration execution and its regular assessment.

While discussing the value-creation aspects of the model, the author has already touched upon some elements of the second layer of this framework, i.e. integration aspects. The figure below shows how they evolve in the whole acquisition process proposed.

As discussed earlier, one of the most fundamental questions acquirers should answer during the initial strategic phase of the whole process is defining their strategic success formula. More specifically, it answers the question on how they will drive value through a merger. In other words, what is unique about their corporate strategy which, when deployed in a given acquisition, will drive abnormal returns from a target or from the merged businesses.

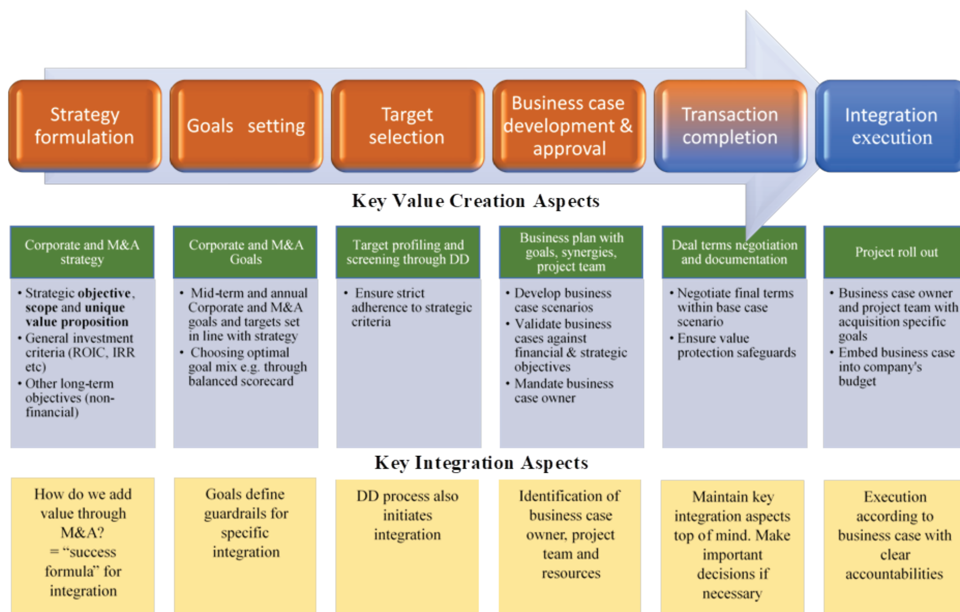

Fig. 6. Value-driven acquisition process

Source: own elaboration.

Defining such a success formula in advance is particularly relevant for all the integration aspects, which need to be initiated as soon as the target selection process is undertaken. All too often integration efforts are initiated after deal execution, and thus remain detached from earlier stages including the strategic review. Moreover, the first encounters between representatives of the acquirer and the target typically occur relatively early in the whole merger process. The impact of those initial contacts cannot be overestimated as it is extremely hard to change the perception once the first impressions have been made (Braun, 2013). Their tone and mood tend to affect greatly the remaining integration stages. Early project team formation usually comprising members of both organisations is another milestone in putting the acquisition process on the right track. Maintaining such a high-level sensitivity to the integration aspects prior to a deal closing also provides invaluable feedback regarding potential roadblocks and choice of the most optimal way to execute the integration plan following the transaction. Lastly, with a clear success formula, an assigned team with clear accountabilities makes the monitoring of integration progress much easier.

The following section illustrates the application of the value-driving acquisition model in question in a business case.

5. The case of AmRest

5.1. Company background

AmRest Holdings SE is the largest independent restaurants operator in Central and Eastern Europe expanding rapidly in Western Europe and China. It runs over 2,300 restaurants in 26 countries in two categories: quick service and casual dining restaurants. The company has a unique portfolio of category-leading franchise brands such as KFC, Pizza Hut, Starbucks, Burger King and a growing number of proprietary concepts including La Tagliatella, Sushi Shop and Blue Frog. Since 2005 AmRest has been publicly listed (Warsaw Stock Exchange and Bolsa de Madrid; ticker: EAT) (AmRest Company Profile, 2021).

The impressive growth of the company, as illustrated in the table and chart below, was driven by both its organic development and expansion through M&A.

Table 1. Key numbers for AmRest 2005-2018

	2018	2005 (IPO)	Growth rate (%)
Sales [m]	6,001	463	1196
EBITDA [m]	785	52	1362
Restaurants	1,800	156	1054
Countries	16	2	700
Employees	38,000	4,900	676
Capitalisation [m]	9,564	360	2557

Source: AmRest materials.

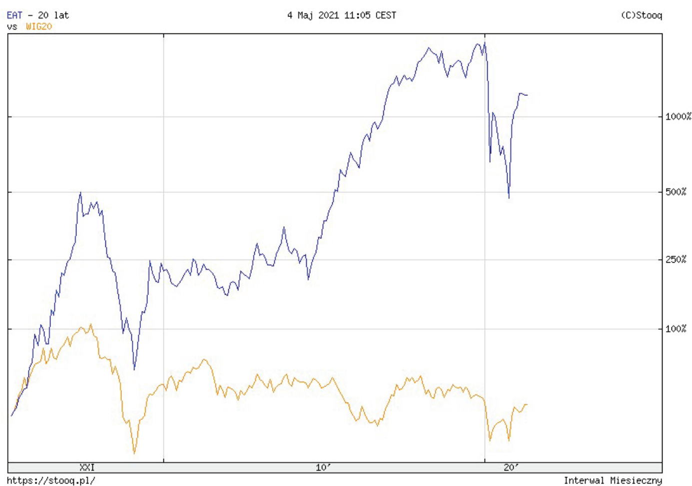

Fig. 7. AmRest share price vs WIG 20 between 2005-2018

Source: (Stooq.pl, n.d.)

The organic growth was mainly driven by new store development, like-for-like (LFL) growth of existing restaurants as well as signing franchise and development agreements with new licensed brands such as Starbucks and Burger King. The second pillar of growth was through M&A.

5.2. From emergent to deliberate corporate strategy

AmRest merger activity in early post-IPO years (2005-2009) was rather infrequent and focused on acquiring KFC & Pizza Hut franchisees in new markets such as Hungary and Russia. Those transactions were realized as part of AmRest's ambitious growth strategy announced around the IPO aimed at tripling its size in three years.

Initially, the company did not have a clearly defined acquisition strategy in itself, its nature was rather emergent (Mintzberg, 1985). Despite that, certain aspects of it were quite obvious to its stakeholders. Acquisitions were treated as a way to mostly opportunistically pursue its emergent corporate strategy of developing AmRest core business using three core strategic competences (People – Brand – Scale) as expressed later in the AmRest Strategy quoted below.

AmRest Corporate Strategy (2005)

Through our unique "Anything is Possible" culture (PEOPLE), unique BRANDS we deliver delicious taste and exceptional service at affordable prices building SCALE with above industry growth in CEE.

The credibility of those initial acquisitions was well-established by AmRest's unique capability in delivering operational excellence in its restaurants, translating into above industry-average financial performance. It was also enhanced by its proven track-record in its successful mergers prior to its IPO. In 1998 it acquired a small restaurant operator in the Czech Republic, and in 2001 merged with Tricon (operator of KFC & Pizza Hut equity business) in Poland. In both instances the targets were financially distressed businesses. The merger with Tricon, the company twice the size of AmRest, just added another dimension of complexity to the integration challenge.

Though the company did not have a specifically defined M&A strategy around the IPO, at the time it was assumed that it would broadly mirror its corporate strategy. The key strategic advantage AmRest used in those acquisitions was its proven capability in running and turning around the KFC and Pizza Hut businesses in Central and Eastern Europe.

Obviously entering two new markets, particularly Russia, was pivotal in creating huge 'white space' for the company's growth.

5.3. Profitable lesson

Perhaps one of the most important milestones in the AmRest M&A process transformation came in 2008 with the acquisition of Grove Ownership Holding

LLC, the second largest Applebee's operator in the U.S. with 104 restaurants for USD 62.7 m. In hindsight that transaction may look like an excellent business decision, creating a concrete and easily measurable value. The target was sold eventually by AmRest for USD 100 m in 2012. In Polish zloty terms (the functional currency of AmRest at the time), the return on investment was even more impressive. At the time of that transaction, however, it did not necessarily meet with only positive reactions in the market and among the shareholders. The biggest criticisms of the deal concerned its unexpected geographical direction. The addition of a new, franchised brand, Applebee's, to the business portfolio was less controversial – after all this was the leading casual dining brand in the US with growing international expansion.

While the Applebee transaction could be challenged as non-strategic at the time, it featured certain appealing elements:
- leading brand in the casual dining sector in the US and growing globally;
- attractive valuation compared to CEE potential deals;
- lower operational and political risk (vs Russia);
- solid profitability of the target;
- good organisational fit;
- good prospects of bring the brand to Europe, and a balanced AmRest portfolio heavily skewed towards quick-service business.

In essence this made financial sense and was encouraging in terms of potential smooth integration given good organisational fit, and also ticked many other strategic boxes.

AmRest eventually decided to divest itself of this business four years later, to the relief of many investors. The rationale of the sale was different from the main sources of the initial deal criticism. Despite that, the company could not shed easily the image of an opportunistic and unpredictable acquirer motivated mostly financially.

All things considered, that controversial acquisition turned out to be a big lesson for AmRest in some unexpected ways. It exposed certain gaps in its strategic approach to M&A, necessitating a concrete definition of the M&A strategy and stricter criteria for target selection. This was particularly important in the external communication with the IR community.

The Applebee case, however, also showed certain positive aspects of acquisitive potential by providing a unique testing ground for AmRest's integration process and systems in a new environment, which, in many aspects, was very different from the CEE reality. The company discovered that its business culture indeed had a universal appeal and integrated well in such diverse localities as the Czech Republic, Hungry, Russia and the US. The systems and processes forming the core operational excellence in CEE proved to be equally relevant in the American context.

5.4. From corporate to M&A strategy

This Applebee experience was a stepping stone to formulating ultimately the M&A strategy of AmRest as the acquirer of choice of the leading franchised brands in Europe. While having a corporate strategy guided the senior management M&A decisions in the early years on how to create value in the acquired businesses, it still left some potential questions unanswered, such as:

- Is the company limited to acquiring franchisors of brands it already has in its portfolio?
- Would it consider buying proprietary brands?
- What is the geographical scope of business activity? Is it Central & Eastern Europe only?
- Does AmRest want to pursue opportunistically only those businesses that come up for sale or proactively solicit other deals?
- What can the company do to attract other sellers, their stakeholders?
- Why should anyone feel better under the AmRest umbrella in terms of value--creation potential?

A good test of M&A strategy is asking whether it provides clarity on how a company will add more value than the cost of acquisition and even better, add more value than any other potential buyer. It needs to define not only what it is good at but also the areas not to engage in. Being clear about those strategic trade-offs helps to narrow the focus and deploy organizational resources more optimally (Collis, 2009).

5.5. Application of value-driving acquisition process – selected best practices

5.5.1. Measure what is important

Once the acquisition strategy was formulated, AmRest followed a more specific acquisition including specific annual objectives for the M&A team tied to the corporate goals. Those would take the form of specific transactions to be closed in a particular year or identifying and signing SPAs regarding targets with concrete business parameters such as food category, specific brand, number of restaurants etc. Obviously, all those goals would need to be also validated in terms of their value-creation impact. A common metric used to that end was project ROIC and IRR, which had to meet certain minimum thresholds, including contingency. It tended to focus on cash-on-cash return assessment of a given investment relating cumulative EBITDA realised vs cash outlays, including initial consideration of subsequent capex expenditures. Strong adherence to EBITDA generation and growth has been consistent with the key drivers of value creation in the restaurant industry, i.e. sales and EBITDA annual growth and the resulting EV/EBITDA multiple.

The non-financial metrics of acquisition progress included employee and managerial turnover, as well as net promoter score (NPS) measuring the level of employee engagement. The necessary cascading of those value creation objectives

to the integration team would happen at later stages of the business case development and integration phase respectively.

Having a clear M&A strategy as a subset of the corporate one provided a better platform for profiling and screening prospective targets. It also made target solicitation efforts more focused. With a clear list of selection criteria, the company filtered more efficiently scores of potential transactions and improved the management of its M&A budget (particularly its biggest expense, i.e. due diligence fees). This became particularly important during 2016-2017, a period in which AmRest completed ten different transactions of a different nature and in diverse countries. Last but not least, it also improved the dialogue with the IR community and the key players involved in the M&A process.

5.5.2. Business case – key link between M&A strategy and execution implementation

The implications of strategic clarity affected other aspects of the acquisition process as well. Defining clarity upfront has helped the M&A team to be more specific in the development of business plans for contemplated transactions. One of the biggest improvements in the ultimate target integration was a direct result from the specific nomination of a business plan owner, along with the specific goals and embedding them into the budgeting process and incentive planning during the integration phase. That particular practice helped to address two major impediments of each acquisition process raised in Section 3 – lack of continuity and its fractured nature. The business plan tied to a particular acquisition was elevated to a similar status as the other standard capex projects. It comprised a set of key assumptions, multi-year projections, sensitivity and scenario analysis and its impact of value-creation metrics. Just like in a capex process, an acquisition business plan was signed off by a nominated leader and cascaded to their teams involved in the integration process.

Based on the author's interviews with other business practitioners and the prior experience, business plans developed in the pre-transactional phase often tend to remain anonymous and without a clear business owner. They are also quickly forgotten once the ink dries on the contract. This is unfortunately a common reality of many organisations where employees become overwhelmed and busy to the detriment of the efficiency and effectiveness of their work (Mackay, 2019; Pontefract, 2018).

Having a defined business case, which was internally owned and approved by key stakeholders, the M&A team had a clear mandate regarding the absolute minimum parameters of a given transaction. The impact it had on the signing and closing process was two-fold. Firstly, it clearly defined certain deal non-negotiables, which might include such elements as assurance of minimum duration of lease contracts for the acquired portfolio of restaurants to match the time horizon of the business case or embedding certain value protection mechanisms such as parking a certain percentage of the purchase price on escrow account or other price adjustment mechanisms. Secondly, it also contributed to the acceleration of the whole negotiation

and closing process, which, if not handled properly, could drag for an extended period of time. In extreme cases transactions simply fall apart during the last stage of the pre-transactional phase. Having the knowledge of specific deal priorities and areas, one can let go of in negotiations is an important catalyst in this stage of the acquisition process.

5.5.3. Developing a unique integration approach

Lastly, one arrives at the proper integration execution of a merger. Before the existence and disciplined approach to the previous five stages of the value-driving acquisition process, this phase was quite detached from the prior acquisition steps. An ad-hoc integration team would be built and slowly brought up to speed with the task at hand. The new, integration-related obligations would typically come on top of the existing responsibilities of the team members. The team leader was often a manager skilled in project management administration yet with no clear understanding and real accountability for realizing the key deliverables of the business case plan.

In a revised and integrated value-acquisition process the integration execution stage became a natural consequence of the preceding stages. The core acquisition team was already formed during the target selection stage, and also heavily involved in the due diligence and business case development; understanding the key value levers in a contemplated transaction helped it to properly design and perform the integration execution phase, communicate with the key stakeholders and remain accountable for the results. The role of the business owner was crucial in leading the whole integration effort by ensuring adequate resources, communication, coordination, and tracking progress through regular performance reviews. In this way the process continuity was visibly strengthened. Business case ownership and the cascading of acquisition specific value-creation objectives to the integration team members also brought strong alignment, further reinforced through an incentive system tied to the specific individual goals.

6. Key conclusions

Most acquisitions are complex undertakings involving multiple stakeholders and often causing far -reaching consequences for the organisations involved. Although similar to other business processes, a merger carries certain distinct characteristics negatively affecting its smooth execution. The two major challenges come from its discontinuity and fractioned nature. That is why an acquisition process is extremely difficult to handle, as evidenced by the continuing poor track of M&A in value creation.

There is a large body of research looking at mergers in a fragmented way from various perspectives (strategic, organizational, financial). In contrast, a more holistic analysis of the process is rather rare. The more comprehensive models, despite years

of evolution and their constant improvement, continue to have certain prominent gaps. They include lack of proper corporate strategy context, absence of value-driving metrics and poor reinforcement of the role, accountability and alignment of an acquisition team. The project continuity is also further impaired by a common approach in the M&A literature and practice of delay integration efforts until the deals have been signed. The very term, namely post-merger integration (PMI), epitomises this syndrome well.

Given the high financial stakes of M&As globally and their poor track record in value-creation, there is a large space for improving the analysis and practice in this vital area of finance and management. A more comprehensive analysis and process management can be achieved by bringing closer the M&A theory and practice, as was attempted in this paper.

Companies often use M&A as one of their main levers for value-creation, earmarking substantial investment to that end. A combination of high process complexity with large investment creates the potential for suboptimal value-creation, or even destruction of value through acquisitions made on a massive scale.

The value-driving acquisition framework presented in this article attempts to better capture all the key success factors for a fully absorbed acquisition and integration project. The model features certain novel elements in M&A literature which are vital to value-creation, such as anchoring the whole process in the acquirer's corporate strategy, which determines its value-creation formula. It also addresses one of the biggest obstacles to the successful execution of any business process including an acquisition, namely, lack of performance management and aligned incentive system. The application of relevant goals and metrics is reinforced in the model at every stage of the acquisition process as the key enabler of value creation. It also introduces a business case development stage being a critical link between the pre-transactional and post-transactional phases. Lastly, the framework challenges the traditional approach post-merger integration by advocating its initiation in pre--transactional stages. The value-driving merger model stresses the importance of an accountable acquisition team run by a competent leader through the whole process. The model also challenges the traditional approach to integration efforts, which are often started only after a transaction completion. Instead, it postulates the initiation of those efforts already in the target profiling and screening phase.

The business case of AmRest presents both the company's evolution in its approach to acquisition processes as well as certain best practices of the value--driving framework in action. Being a serial acquirer like AmRest creates a unique learning opportunity. The company constantly improved its execution of this vital business process drawing lessons from previous transactions.

In the same vein, the best practices introduced to the AmRest value-driving merger process were largely taken from its successful routines in other internal processes. They included the strict application of its performance management and incentive systems, and the usage of an accountable project team. In essence, this

particular management modus operandi was very much a reflection of one of the key unique aspects of AmRest strategy, i.e. its operational excellence resting on three pillars: people, brands, scale.

Having clarity on how a company adds value is not only important for its ongoing operation, but equally critical in approaching M&A. In the case of AmRest, it helped to formulate a specific M&A strategy, providing a much-needed focus through clear target profiling, deal execution and integration efforts. Ultimately it also resulted in an improved track-record of its subsequent takeover projects, contributing largely to its unprecedented market capitalisation growth.

In conclusion, despite several merits of the value-driving acquisition process framework presented in the article, the model has certain limitations in its applicability. It fits best a full-integration scenario and has been mostly tested in retail and people-based businesses. As such it requires more validation across various transaction types, industries or integration strategies. Given the potentially enormous impact on value creation in M&A globally, more thorough research is being considered by the author.

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BUDOWANIE WARTOŚCI W PROCESIE AKWIZYCYJNYM – KONCEPCJA STRUKTURY I PRZYPADEK BIZNESOWY

Streszczenie: Artykuł dotyczy trzech wyzwań w literaturze i praktyce M&A, tj. słabej orientacji na kreowanie wartości, braku zintegrowanego, a także zbyt wąskiego podejścia do procesu integracyjnego. Zaproponowano nowatorskie spojrzenie analityczno-biznesowe, wychodząc naprzeciw powszechnym wyzwaniom w kreowaniu wartości w procesie akwizycyjnym. Koncepcja ta oparta jest na krytycznym przeglądzie ewoluujących w czasie modeli M&A, jak i na doświadczeniach praktycznych autora. Prezentowana struktura akcentuje rolę strategii korporacyjnej definiującej sposób kreowania wartości danej firmy, w tym również jej działalności akwizycyjnej. Podkreśla ona również znaczenie systemu zarządzania przez cele w zapewnieniu odpowiedzialności i spójności działań akwizycyjnych na każdym etapie procesu. Model proponuje także odejście od tradycyjnego podejścia do procesu integracji na rzecz wcześniejszego inicjowania działań integracyjnych. Artykuł prezentuje praktyczne zastosowanie modelu poprzez *business case*.

Słowa kluczowe: proces akwizycyjny, model biznesowy, integracja, system zarządzania wynikami, kreowanie wartości.