Acquisition as growth Strategy

A case study of SYSteam AB and Sigma AB

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Bachelor Thesis within Business Administration

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Background: Acquisitions are considered to be the ultimate form of corporate growth in today’s increasingly complex and global business economy. There is a significant lack of research done in understanding the growth of I.T. SMEs by means of acquisitions. All previous research concerning acquisitions has focused mostly on large sized organizations, involved in cross national operations. SMEs do not compete in an international arena like multinational corporations, who have already inherited a culture of accommodating acquired firms and achieving synergy. Therefore the question here arises as to how SMEs pursue growth via acquisitions despite having limited resources and capabilities.

Purpose: The purpose of this thesis is to study acquisition growth strategy of two I.T. firms (SYSteam AB and Sigma AB) which have grown from SMEs to large firms by means of acquisitions.

Method: In order to fulfill the purpose of this study the authors conducted a qualitative case study of two I.T. firms. The authors used interview as the data collection method.

Results/conclusions: There are many different factors which lead a firm to pursue acquisitions. Increased market share, proximity to key customers and entrepreneurial nature of the founders were the main ones. Acquisition brings about numerous synergies and integration is a key to capitalizing upon these synergies. Acquisition induces entrepreneurial orientation and facilitates the emergence of acquisition capabilities within the acquiring firm.
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1 Introduction

This chapter presents the background, research problem, purpose, research questions, delimitations, and outline of thesis. The main purpose of the chapter is to introduce to the topic and to make the reader understand about the problem studied.

The authors of this thesis have a common interest in organizational strategy for growth and management. Due to this the authors were keen to perform a research within this field. During the initial phase of the thesis process we approached a professor at Jönköping International Business School, who is an expert within the field of strategy. In the course of our discussion for potential topics we were informed of a I.T. consultancy company based in Jönköping which operates throughout Småland.

The Company X was established by a team of entrepreneurs operating within the vicinity of Jönköping. Since then the company has been working with a single global corporation as its main customer. Currently the major share holders in the company are the employees. A recent shift in ownership brought about changes in the strategic direction of the firm. In order to reduce their dependency upon their single largest customer, the company X has progressively expanded their customer portfolio, and has since been pursuing a more balanced growth strategy. The company currently consists of approximately a hundred employees and even in current financial crisis has recorded growth of fifteen percent in the last year.

In conjunction with organic growth, the company has also recently acquired two small I.T. consultancy companies based in Stockholm, each consisting of seven to eight employees. The two acquired companies specialize in providing customized I.T. solutions for clients based in Stockholm’s region.

The recent activity marks a new phase of inorganic growth within the company and acquisitions have been signaled as the intended strategic choice in order to pursue growth. For this reason the authors decided upon acquisition as a growth strategy, to be a relevant topic for research.

2 Background

Small and medium size enterprises are the backbone of the European economy. The 23 million SMEs in Europe represent 99% of businesses, provide 75 million jobs, and are a key driver for economic growth, innovation and social integration (http://ec.europa.eu/enterprise/index_en.htm).
The small and medium sized business sector has grown dramatically in the last decade, with some companies having unleashed their true potential, allowing them to achieve unprecedented growth. According to Barringer and Greeing (1998), SMEs business sector continues to achieve phenomenal growth, thus an important area of concern in this field has been finding the problems, challenges and success characteristics associated with growth of individual firms. The most common forms of growth include internal organic expansion, i.e. expanding capacity in fixed locations, and external growth, i.e. exporting, mergers, acquisitions and franchising.

Small and medium size businesses when expand from one location to several new potential markets located in different geographical areas are subject to a number of potentially unique challenges and opportunities. It has been noticed after reaching a certain stage of growth, the company growth rate declines in comparison to its past growth rate. The reasons may be due to resources maturation, lack of growth opportunities in a firm’s established region and a lack of complementary resources that could trigger growth. According to Salvato, Lassini and Wiklund (2007, pg. 283), firms that survive the initial formation phase, during which knowledge, competence development and exploration are key, tend to start promoting the exploitation and fine-tuning of existing organizational routines and practices. Cyert and March (1963) defined the exploitation as ongoing use of firm’s knowledge base which allows the organization to focus on the knowledge and routines that have contributed most to its initial survival and growth phases. But according to Salvato et al. (2007, pg. 283), this gradually reduces variety in the firms knowledge base and in the set of capabilities it needs for future growth and survival.

Expansion of a firm into a new location demands flexibility of resources and also poses challenges of control of remote practices. Meanwhile firms also lack those resource which are very efficient in already existing firm domain, but are not valuable in new markets or regions due to lack of local knowledge and experience of a new location. According to Greening, Barringer and Macy (1996, pg. 234) a strategy used by many small and medium sized businesses to achieve their growth objective is one of geographic expansion and in broad terms, geographic expansion provides a means of growth for firms that cannot benefit from additional economies of scales in their present location. Contrary to this growth strategy of geographical expansion through extension of existing operations, internally induced process and product innovation, some firms acquired necessary resources instead of developing them.

Therefore there is need of a balance between exploration and exploitation i.e. ambidextrous organizations usually achieve this balanced approach between two extremes of growth (Tushman & Reilly, 2004). According to Salvato et al. (2007) this may be achieved by acquisitions and an acquisition can be a way to release entrepreneurial ac-
tivity in a firm. They further argue that acquisition may revitalize a firm and improve its ability to anticipate or to react adequately to changing external conditions.

**History of acquisitions**

From the period of 1996 through to 2001, American companies created a momentous wave of acquisitions by announcing 74,000 acquisitions and drove up acquisitions’ combined value to 12 trillion dollars. After this boom of acquisitions, there has been a noticeable decline in acquisitions in following years, for example in 2002 U.S. firms acquired only 7,795 target firms as compared with 12,460 in 2000 (Dyer, Kale and Singh, 2004). According to Penrose (1995) growth through acquisitions is more typical practice of large firms than smaller ones; however it is an option for the growth of SMEs (Pasanen, 2007).

**2.1 Problem Discussion**

With the recent acquisitions of the two I.T. consultancy firms in Stockholm, a new phase of growth has been initiated. This new strategic path is one which the company is keen to pursue, therefore it is highly likely that the company will at some point in the near future, make further acquisitions.

Acquisitions are considered to be the ultimate form of corporate growth in today’s increasingly complex and global business economy. Acquisitions may be a response to resource maturity, simplicity and ossification. The growth of the SMEs by acquisitions of other firms brings about new questions on the horizon of research as to how such companies could achieve synergy and value creation by this external growth. As we have discussed before that an acquisition can be a way to unleash entrepreneurial activity in a firm, however businesses in general have a dismal record of acquisitions performance. Most of the companies failed to achieve the desired target of acquisitions (DePamphilis, 2005).

Therefore to assume that acquisitions guarantee a firm successful growth would be a tremendous misconception. Numerous studies concerning acquisitions have highlighted this issue, and this is supported by Capron’s findings that fifty percent of domestic acquisitions fail to produce acceptable outcomes (Capron, 1999). Considering acquisitions are touted as the “ultimate” form of growth it was surprising for the authors to learn that half of all acquisitions are deemed to be unsuccessful. Nevertheless all this pre and post acquisition research has focused mostly on large size organizations, involved in cross national acquisitions practices. SMEs do not compete on an international arena like multinational corporations, who have already inherited a culture of accommodating acquired firms and achieving synergy. Therefore the question here arises as to how SMEs pursue growth via acquisitions despite having limited resources and capabilities.
There is a significant lack of research done in understanding the growth of I.T. SMEs by means of acquisitions. This is partly because acquisitions bring with itself very big challenges for management in regard to integration, flexibility, control and management of newly acquired businesses.

To investigate how the company can strategize for this new phase of growth, we are interested in looking at how other I.T. SMEs have grown by means of acquisitions or are currently growing through acquisitions. The main focus of our study is to provide SME I.T. companies with a strategic choice for external growth, by studying successful cases of I.T. firms who have grown from SMEs into large firms.

### 2.2 Purpose

Based on the background of this study and the problem statement mentioned above, the purpose of this thesis is to study acquisitions as growth strategy of two I.T. firms (SYsteam AB and Sigma AB), which have grown from SMEs to large firms by means of acquisitions.

To be able to fulfill the purpose of this thesis, several research questions have been stated:

1. What were the factors which led the companies to pursue acquisitions?

2. How do firms capitalize on acquisitions in terms of achieving synergy and capability transfer among newly acquired firms?

3. What is the impact of acquisitions on entrepreneurial orientation and emergence of acquisition capabilities?
2.3 Definitions

- “An **acquisition** occurs when one company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm such as manufacturing facility. An acquisition may involve the purchase of another firm’s assets or stock, with the acquired firm continuing to exist as a legally owned subsidiary of the acquirer” (DePamphilis, 2005, pg. 5).

- “A **merger** is a combination of two or more firms in which all but one legally ceased to exist, and the combined organization continues under the original name of surviving firm” (DePamphilis, 2005, pg. 5).

- “A firm that attempts to acquire or merge with another company is called an **acquiring company or acquirer**” (DePamphilis, 2005, pg. 5).

- “The **target company** or the **target** is the firm that is being solicited by the acquiring company. **Takeover** or **buyouts** are generic terms referring to change in the controlling ownership interest of a corporation” (DePamphilis, 2005, pg. 5).
3 Frame of Reference

The disposition of frame of reference is outlined as follow:

In the beginning we will explain the term *Growth* defined and explained by different authors who have different point of view of it. Then we will explain how different authors have developed growth indicators. Afterwards the authors outlined many factors which effect organizational growth and its impact on firm’s strategy. Following this we will take the *resource based view* of the firm. Then we will explain different modes of growth i.e. organic (internal growth), inorganic growth (mergers & acquisitions), motives for acquisitions, theories of acquisitions, and different types of acquisitions and how firms can achieve synergy by pursuing acquisitions. Towards the end we will deal with how an *acquisition induces entrepreneurship* in a firm and *acquisition capability emergence* in firms having history of mergers and acquisitions and knowledge integration among target and recipient firms.

According to Gibb and Davies (1990) there is no single way or theory which can effectively explain growth process of SMEs and there is also little possibility of such theory of being developed in near future.

3.1 Growth

A common view held within economics and business administration is that firms exist to grow, thus firms seize any possibility to grow (Wiklund & Shepherd, 2003). "*Growth refers to change in size or magnitude from one period of time to another. Growth can involve the expansion of existing entities and/or the multiplication of number of entities. Growth can also be obtained by the multiplication of the number of firms controlled by a particular individual or group of individuals*" (Wiklund, 1998, pg. 12 cited in Noren & Jonsson, 2005).

According to Penrose (1995, pg. 161), "*Growth is not for long, if ever, simply a question of producing more of the same product on large scale; it involves innovation, changing techniques of distribution and changing organization of production and management.*"

Similarly the term growth is often used in ordinary discourse with two different connotations. It sometimes denotes merely an increase in the amount, for example when one speaks of growth in output, export and sales. At other times it is used in its primary meaning implying an increase in size or improvement in quality as a result of a process of development, akin to natural biological processes in which an interacting series of internal changes leads to increase in size accompanied by changes in characteristics of a growing object. Growth in the second sense often also has the connotation of natural or normal, a process that will occur whenever conditions are favorable because of the nature of the organism. Size becomes a more or less incidental result of a continuous ongoing or unfolding process (Penrose, 1995, pg. 1).
The topic of organizational growth as a focus of entrepreneurship scholarship has attracted considerable attention over the course of time (Delmar, Davidsson and Gartner, 2003). A vast amount of research has been conducted on SMEs growth. Studies of small firms are not in short supply; they are abundantly available by surfing through the academic literature focused within this field. However this doesn't necessarily mean that we know everything we want to know about small firm growth. The majority of authors in their recent articles complain that a coherent picture is not easy to distill from the available material.

The firm’s growth is a central focus area of research within strategy, entrepreneurship and organization (Pasanen, 2007). A great deal of research effort has been targeted in particular at investigating the factors affecting the firm growth, but quite strikingly there is no comprehensive theory to explain which firm will grow or how they grow (Davidsson & Wiklund, 2000; Weinzimmer, 2000; Garnsey 1996, as cited in Pasanen, 2007). Although very strong explanatory approaches have been presented but in fact it seems that not very strong explanatory factors has been put forward (Gibb and Davies, 1990).

**Growth Indicators**

Delmar, Davidsson and Gartner (2003) proposed a possible list of growth indicators such as, assets, sales, profit, physical output, employment and market share. According to Delmar (1997), the use of sales and employment measures are most commonly used in empirical growth research. The resource and knowledge based view of the firm implies the use of employment as a measure of growth. If firms are viewed as bundle of resources, then growth analysis tend to focus on employees as the accumulation of resources (Penrose, 1959). The firms’ size matters when performing investigation into their growth, "the difference in administration structure of the very small and very large are so great that in many ways it is hard to see that that two species are of same size" (Penrose, 1995, pg. 19). According to Delmar et al. (2003) all high growth firms don’t grow in the same way. Organizational and managerial complexity increases with growth (Davidsson et al. 2005).

**3.1.1 Heterogeneity of Growth**

Growth remains a multifaceted and multidimensional phenomenon and different forms of growth may have different determinants and effects, and consequently they need different theoretical explanations (Davidsson & Wiklund, 2000). According to Delmar (2003), growth takes different forms in terms of related or unrelated diversification, modes like alliances, licensing, and joint ventures, horizontal or vertical integration. Firms grow in many different ways and these patterns of growth over a period of time vary significantly and have different causes. He further clarifies that if firms grow in different ways, then reasons leading to growth and outcomes of growth will also be different.
3.2 Growth factors

Pasanen (2007, pg. 320) gives several classification of factors affecting the firm growth. According to him the general preconditions for growth have been suggested to be:

1. Entrepreneur growth orientation.
2. Adequate firm resources for growth.
3. Existence of market opportunity for growth.

SME growth may be the consequence of the strategic choices of entrepreneurs (Hambrick and Mason, 1984). Entrepreneurial orientation is an effective measure of resource utilization, and the entrepreneurial judgment of the managers is prerequisite for growth (McKelvie, Wiklund & Davidsson, 2006). According to Murray (1984, pg. 9) founders set very powerful rules concerning the proper and acceptable strategic moves. Consequently this may limit the future strategic choices of managers. Within every environment or industry context SMEs grow at different rates, and these differences in performance of firms suggest that strategic choices made by entrepreneurs has direct or indirect impact on the organizational growth (Gorman, 2001). The most important factors associated with an entrepreneur are motivation, education, firms having middle aged business owners and firms having more than a single owner. It is also important to realize that most of the business founders have modest growth aspiration for their firms. Similarly owner-manager’s growth motivation, goals and communicated vision have a direct impact on firm’s growth (Baum & Locke, 2004; Delmar & Wiklund, 2003, cited in Pasanen, 2007). Behavior of an entrepreneur is strongly affected by intentions and the firm’s strategic behavior and subsequent growth is understandable in light of its growth intention. Firm growth is based on management conscious decisions making and choice, not merely on chance (Pasanen, 2007). He also adds that after ensuring the survival of the firm, growth can be regarded as second most important goal of the firm.

Firm growth is constrained by the availability and quality of managerial resources (Penrose, 1995). According to Wiklund and Shepherd (2003), small firm growth may be an area under volitional control and there is reason to believe that personal motivation of the small business manager is linked to the firm’s growth outcomes. They further add that motivational difference may be an explanation as to why there are such large differences in small firm outcomes. Referring to small business, top management’s ability is regarded as key capabilities (Jennings & Beaver, 1997; cited in Wiklund & Shepherd, 2003). Therefore in order to expand his or her business the SMEs’ managers must have the ability to secure the complementary resources needed for growth. These resources also help in developing organizational growth capability (Covin & Slevin, 1997; Sexton & Bowman-Upton, 1991). According to Wiklund and Shepherd (2003b) personal ability play an important role in the growth of small firm. Firm growth is not instantaneous, the motivation and behaviors of today will affect size changes or growth in the future.
Growth to a considerable extent is a matter of willingness and skill, and the extent to which the firm governs its own destiny is also likely to vary across firms and situations. Industry sector and location also affects growth. The most important strategic factors are an ability to identify market niches, an ability to build an efficient management team, shared ownership, and ability to introduce new products (Pasanen, 2007).

Industry factors have a very significant impact on both the level of growth and firm’s profitability (Porter, 1980; Schmalensee, 1985). According to Aldrich and Fiol (1994); Romanelli and Tushman (1986) organizations are constrained by the external environment they operate in and consequently organizational growth can be explained in terms of these environmental forces. Some researchers suggest that the period of high demand conditions such as industry maturity, industry growth increase the chances of firm’s survival (Gorman, 2001). Gorman (2001) argues that for managers have to make two choices, first where to compete and followed by this how to compete. He further adds that these two strategic choices has creative imperative in their intrinsic meanings.

### 3.3 Resource based view of the firm (RBV)

The resource based view of the firm is less than a theory of the firm structure and behaviors. It is an attempt to explain and predict why some firms earn superior returns and why some firms are able to establish positions of sustained competitive advantage. The idea of looking at a firm as a broader set of resources or bundles of resources goes to seminal work of Penrose (Wernerfelt, 1984). The resource based view of the firm has become one of the central views used in contemporary entrepreneurship research and strategic management literature. The theory of the firm growth, in classic book of Penrose (1959), proposed the resource based approach to the management. She focuses on the role of firm resources on a firm's growth. She states,

"...A firm is more than an administrative unit; it is a collection of resources, the disposal of which between different uses and over time is determined by administrative decisions...The services yielded by the resources are a function of the way in which they are used...exactly the same resources when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different services or set of service...as we shall see, it is largely in this distinction that we find the resources of the uniqueness of each individual firm" (Penrose, 1959, pg. 24-25).

According to Grant (1996, pg. 110) resource based view of the firm perceives the firm as, “unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize the value through the optimal development of existing resources and capabilities, while developing the firm resource base for the future.” Penrose (1995) profoundly stresses that new combination of resources is central to firm's growth, in her words, “The productive activities of such a firm are governed by what we shall call this in productive opportunity, which comprises all of the productive possibilities that its entrepreneur sees and can take advantage of. A theory of the growth of the
firm is essentially an examination of the changing productive opportunity of the firms” (Penrose, 1959, pg. 31-32).

According to Wernerfelt (1984), a resource meant anything which could be thought of as a strength or weakness of a given firm. He further elaborates that firm resources at any given time could be defined as those tangible and intangible assets which are tied semi permanently to the firm. Strategic positioning of firm resources creates an invisible entry barrier for the rivals or new entrants (Wernerfelt, 1984). For example, in-house knowledge of technology, intellectual capital, brand name, technical knowhow, firm or industry etc.

3.4 Knowledge based view of firm

It is not yet a theory of the firm (Grant, 1996), but it is an emergence of the RBV. It focuses upon knowledge as the most strategically important of a firm’s resources. Production process involves the conversion or transformation of given inputs to outputs. According to the knowledge based view of the firm, the critical input in production and primary source of value is knowledge.

Spender (1989, pg. 185) defines the organization as “the organization as in essence a body of knowledge about the organization’s circumstances, resources, casual mechanisms, objectives, attitudes, policies and so forth.” According to Penrose (1959, pg. 77) unused productive services of the resources shape the scope and direction of the search for knowledge.

SMEs rely on a variety of resources, but according to Zahra, Neubaum and Naldi (2007), their success largely depends on their ability to use knowledge to develop processes, new product and services in the market. Proponents of KBV believe a firm competitive advantage lies in its ability to collect integrate and use knowledge (Zahra et al. 2007, pg. 309). Knowledge is usually embodied in technical, human and relational resources a firm possesses, and these resources can influence firm's expansion, especially growth rates and sales (Zahra et al. 2007).

Very dynamic and turbulent conditions found in the markets may prompt SMEs to develop new skills and competences to ensure a firm's survival and create wealth. Hence developing and building these skills and competences requires SMEs to gain access to internal and external source of knowledge, however this process is very expensive and time consuming. Knowledge about markets and technology are two key resources that influence firm performance and growth. Furthermore SMEs greatest resource often lies in their intellectual capital (Zahra et al. 2007; Wiklund & Shepherd, 2003).

3.4.1 Knowledge Integration and Dynamic Capability

According to Barney (1991) the resource based view of the firm recognizes the transfe-

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rability is important regarding knowledge, between the firms (Grant, 1996). The prior knowledge of SMEs has an impact on their ability to respond to the external environment (Liao, Welch & Stocia, 2003).

### 3.5 Organizational Strategy

The firm growth and performance is significantly affected by strategy. This involves strategic choices along a number of dimensions, which can be presented by a firm’s overall collection of individual business related decisions and actions (Pasanen, 2007; Mintzberg, 1979; Miles & Snow, 1978).

According to Bowman (1974, pg. 47) strategy can be viewed as “continuing research for rent.” Tollison (1982) defines rent as return in excess of a resource opportunity cost. The traditional concept of strategy considers the resource position of the organization. A firm selects its strategy to generate rents based on their resource capabilities and resources configuration (Mahoney and Pandian, 1992, pg. 364). They further argue that an organization which has the strategic capability to focus and coordinate human efforts and the ability to evaluate effectively the resource position of the firm will have a strong basis to gain competitive advantage.

In addition to the importance of favorable organizational internal conditions, the organizational strategies should be in accordance or in harmony with the external environment conditions. The firm must have a look at the market and outside environment even if they do not have control over it (Pasanen, 2007). Chaganti (1987) observed that for SMEs different growth environment required different strategies. Pasanen (2007) argued that it is contrary to the findings concerning large organizations. Strategic flexibility is a critical requirement for SMEs (Changati, 1987). According to Wernerfelt (1984), resource perspective provides a basis for addressing some key issue in formulation of strategy for diversified firms such as:

1. Which kind of resources should be developed through diversifications?
2. On which kind of current organizational resources should diversification be based?
3. Into which markets and what sequence should diversification take place?
4. What type of firm will it be desirable to acquire?

In the strategy literature the interplay between organic growth and growth via acquisitions has been addressed mainly through the resource based view of the firm. These two growth modes address the question that how a scope of firm resource can be enhanced over time (Achtenhagen, Brunninge & Melin, 2007). According to Penrose (1959) and Levie (1997), a distinction between organic growth and growth via acquisitions is important on a firm level because effects and drivers of two modes of growth have different organizational and managerial implications.
According to Pasanen (2007), several growth strategies have been presented in the management and the entrepreneurship literature, and managing growth is the key strategic challenge for a growing firm. Strategy is most important determinant of firm growth (Weinzimmer, 2000). Thomson (2001, pg. 563-565) presents four growth strategies of firms these are, (1) organic growth, (2) acquisitions, (3) strategic alliances and (4) joint ventures.

High growth SMEs respond to new market opportunities including finding new products and services for existing customers or obtaining new customers for existing products or possible diversification of business into new activities and changes in management and organizational structure are more consistent an distinctive feature of high growth SMEs (Smallbone et al. 1993). Furthermore high growth can be achieved by a firm with variety of age, size and sector characteristics, and one of the important factors is the commitment of the leader of the company to achieve growth.

3.6 Resources and Growth strategy

It is the heterogeneity of the productive service available or potentially available from its resources that gives each firm a unique character, Penrose argues (1959, pg. 75). A firm can achieve rent not because it possesses better or efficient resources, but it is a firm's distinctive competence involves in making better use of its available resources. According to Wernerfelt (1989), fundamentally these are resources of the firm which limits the level of profits it may expect and the choice of markets it may enter. Mahoney and Pandian (1992) explained that there could be four key resource constraints:

1. Shortage of physical inputs or labor.
2. Lack of financial resources.
3. Lack of suitable investment opportunities.
4. Lack of sufficient managerial capacity.

According to Penrose (1995), the growth of the firm in the long run is limited by its internal managerial resources. Management is both the brake and the accelerator for the growth process, argues Starbucks (1965, pg. 490). Marris (1963), cited in Mahoney et al. (1992) call this managerial constraint on firm growth rate as Penrose effect. Managers achieve growth by pursuing superior competitive strategies or by managing the transition through the various stages of growth and overcoming barrier to growth (Gorman, 2001, pg. 61).

In addition to analyzing the limits on the rate of firm growth, Penrose (1995) also examines the motives for firm expansion. According to Mahoney and Pandian (1992), it is not very common for all organizational units to be operating at the same speed, frequency and capacity. Therefore this phenomenon creates an internal inducement for firm growth. In 1985, Penrose presented a resource approach that firms are a collection of human, physical and intangible assets, and also firms are administrative organizations.
Within every firm, at all time there exist pools of unused or poorly exploited productive service which together with changing knowledge of management create product opportunity for each firm (Chandler, 1971; Truce 1980, cited in Mahoney et al. 1992). In Penrose words there is a virtuous cycle in which the process of growth necessitates specialization but specialization necessitates growth and diversification to fully utilize unused productive services. Thus specialization induces diversification (Mahoney et al. 1992, pg. 366). For a firm to achieve an optimal growth rate involves a balance between exploitation of existing resources and development of new resources (Penrose, 1995; Wernerfelt, 1984). This balance can be achieved by acquisitions (Salvato et al. 2007). The direction of firm growth is due to nature of its available resources and market opportunities in the surrounding environment (Mahoney et al. 1992). They further add that an enterprise specific resource serve as the driving for its diversification strategy.

According to Gorman (2001), the strategy literature suggests that high growth business is characterized by success strategies and this implies that growth is an organizational outcome that reflects choices made by managers. Concerning the strategies of high growth companies, according to Kuhn (1982) and Porter (1980), they grow by means of differentiated strategies. Kuhn (1982) concluded that flexibility is an important success strategy for midsized company. According to Rumelt (1979) high growth companies grow by building on existing strengths and by emphasizing corporate relatedness. He further explains that businesses which diversify but restricted their range of activities to certain skills or competence show a higher rate growth and profitability than those firms that diversify into unrelated business areas (cited in Gorman, 2001, pg. 62). Superior strategies results in the development of necessary resources to fund further growth and development, consequently turns growth more sustainable (Gorman, 2001).

### 3.7 Organic growth

According to Lockett and Thompson (2004), Penrose makes the basic assumption for the firm growth that managers try to maximize the profits of firm via growth.

Therefore it is the primary task of managers to use the available resources in order to maximize profits. This is the logic behind the organic growth from the aspect of resource based view. The management of the firm must be aware of the opportunities and limitation made available by its productive opportunities. These opportunities are based on both the changes in the environment of the firm and resources internal to the firm. These changes in stock of firm resources and changes in environment create new profitable value to the firm (McKelvie et al. 2006).

According to Achtenhagen et al. (2007) organic growth is usually assumed as normal growth of SMEs and it occurs through the exploiting of new and existing market opportunities in old and/or new markets with old and/or new products and services. They further state that the most important issue related to organic growth strategy is internal development of company and its business processes. For SMEs it has been pointed that
SMEs organic growth is often self-financed, ensuring that firm has enough liquidity before growing.

According to Penrose (1995), there are three overwhelming important factors that could limit the organic growth of the firm.

- Managerial ability (internal factor)
- Product and markets (external factor)
- Uncertainty and risk as combination of both external and internal factor.

Penrose (1995) further argues that organic growth is not a self propelled phenomenon and doesn’t take place automatically. It needs a purposeful planning and allocation of resources for successful growth of the firm.

### 3.8 Acquisition

Penrose makes the distinction between growth through acquisitions and internal expansion and emphasize that these may be different processes. According to Penrose (1959, pg. 188-189) herein lies the really significant difference between internal and external growth, “...successful acquisition of another firm may require no more than a financial stability, bargaining skill, aggressive initiative and a sense of strategy, this stands in sharp contrast to the program of internal expansion where managerial planning and execution cannot be avoided in the very process of expansion and other internal bases for expansion are usually necessary” (cited in McKelvie et al. 2006, pg. 182).

According to McKelvie et al. (2006), the arguments of RBV are based on the possession of resources as source of growth. Due to several other reasons, growth by acquisitions is more likely to take place in the large firms as compared to small ones. The reason of large firms being involved in acquisitions may be due to access to capital, and capital is major issue for the small firms. The findings of Winborg and Landström (2001) points out small firms use bootstrapping as a mean of acquiring operating resources, and acquiring another firm might be beyond the realistic scope of financial resources.

Acquisition provides an opportunity to trade non-marketable resources and to sell and buy resources in bundles. An acquisition can be seen as purchase of a bundle of resources in highly imperfect market. By basing the purchase on a rare resource one can ceteris paribus maximize this imperfection. This results in one's chances of buying cheap and earning good returns (Wernerfelt, 1984, pg. 172).

Acquisition and organic growth are two pillars of a firm’s growth strategy. Many businesses don't treat these two alternative mechanisms for attaining the same goals. These two strategies differ in many ways, and companies must develop ability to execute both strategies if they want to grow. According to Dyer et al. (2004) knowing when to use which strategy may be a greater source of competitive advantage than knowing how to execute them. They further argue that acquisitions deals based on market prices are
more competitive and risky. Companies habitually deploy acquisitions to cut cost or to increase scale. However, most companies find it considerably difficult to achieve and sustain growth. Therefore, they have focused intentionally towards acquisitions to boost profits, sales, and most importantly, stock prices. This has been evident in developed countries (Dyer et al. 2004).

Most acquisitions and alliances fail. "Unlike wines an acquisition does not get better over time" (Singh et al. 2005, pg. 89). To better understand successful execution of acquisition, practitioners have applied everything from behavioral science to game theory to help companies to master acquisitions, Dyer et al. (2005). According to Singh et al. (2005), a company's experience in managing acquisitions is bound to influence its choices and companies habitually deploy acquisitions to increase sales.

According to Cartwright and Copper (1993) the effectiveness of acquisitions is dependent on the ability of the managers to integrate the two firms and achieve synergy during the process. Aldrich and Auster (1986), explained that in case of small firms, generally have shortage of managerial resources available, often times available current resources are already full employed. According to Penrose (1959, pg. 207), the larger and more complex the expansion the more managerial services could be expected to be required per unit of expansion, which should also restrict small firms’ expansion through acquisitions (McKelvie et al. 2006).

3.8.1 Types of acquisition
Organizational barriers stand in the way of selecting an acquisition strategy. A company's initial experience focus only on organic growth mode or internal development of business process. This consequently results in blinders and hinders companies from looking around for other strategic growth opportunities, Dyer et al. (2004).

Penrose (1995, pg. 156), explains that there are two methods of expansion open to an individual firm. First is that a firm can build new plant and create new markets for itself or second is that it can acquire a plant and markets of already existing firms. Acquisitions are usually regarded as growth strategy of large companies, as opposed to organic growth strategy. This growth strategy can be either synergistic or non-synergistic (Ar-slinger and Copeland, 1996).

Forward or Backward integration
According to Pasanen (2007), forward and backward vertical integration means that acquired firm is located at the different level of firm value addition chain. In other words the acquired firm is the customer or supplier of the organization.

Horizontal and Lateral integration
Horizontal integration refers to a firm which at the same level of value addition and lateral integration means that integrations refer to unrelated business which represents a diversification strategy.
Growth through a portfolio of firms can often be closely associated with acquisition growth. Scot and Rosa (1996) found that growth through setting up by new firms i.e. growth through a portfolio of firms is also one way of growing.

### 3.9 Motives for Acquisitions

Motives for acquisitions are as numerous as they are complex (Trautwein, 1990). Due to the unique nature of each situation no one motive or set of motives can perfectly explain each case. According to Trautwein, research within the field of mergers and acquisitions has concentrated upon consequences rather than motives. However the field has produced seven different theories regarding motives. The following figure illustrates how the various theories are categorized (Trautwein, 1990).

![Figure 1: Theories of M&A motives (F.Trautwein, 1990, pg. 284).](image)

### 3.10 Resources and Synergies

Gaughan (2002) and Öberg (2004) refer to synergy as, “the interaction between two factors or substances, consequently their combined effect is greater than sum of the individuals effects.” According to Hitt et al. (2001, pg. 53) synergy defined as “the ability of two or more units or companies to generate greater value working together than could have done when working apart or alone.” Gaughan (2002) differentiated and explained about different types of synergy, a company normally looking for. These types of synergies are commonly referred as financial synergy, managerial synergy, and operational synergy.

A distinction should be made between value creation and value capture, when discussing the potential benefit of acquisitions (Singh & Montgomery, 1987; Haspeslagh & Jemison, 1991).

According to Salvato et al. (2007) value capture is a onetime phenomenon or event that results from features inherent in the transaction itself, for example tax benefits and asset stripping. Whereas value creation is a long term phenomenon that results from interac-
tions between firms involved and entrepreneurial or managerial actions. To nurture value creation in an acquisition process there has to be a competitive atmosphere which encourages capability transfer process (Haseslagh & Jemison, 1991). According to Noren and Jonsson (2005) value creation is a possibility when the strategic actions have a clear focus on an efficient use of the specialized resources a firm possesses, while considering at the same time environmental constraints and opportunities.

Jemison (1988) further elaborates it that value creation embodies the transfer and recombining of capabilities between two firms, which is commonly referred as synergy. Salvato et al. (2007) found in their studies that potential synergies are the main reason for acquiring other firms and some SMEs under their observation accomplished impressive growth rates through acquisitions. They have grown from small to large size firms.

It is the most abused concept in the acquisition dictionary, but companies’ team up to profit from the synergies. Synergies can be generated by combining resources that firms bring to the table before the deal closes. Firms bring different kind of resources (human resources, intangible resources, physical resources, technical resources, financial resources and industry specific contacts) to the table (Dyer et al. 2004).

3.10.1 Types of Synergy
Singh et al. (2005) explain that firms create three kinds of synergies by combining and customizing resources differently. Those resource interdependencies and combinations require different levels of coordination between firms and result in different forms of collaboration or resource integration.

1. Modular Synergies
Firms create modular synergies when they manage resources independently and pool only the results for great profits. They further elaborate that synergies are modular because modularly independent resources generate them.

2. Sequential Synergies
Firms create or drive sequential synergies when one company completes its task and passes on the result to a partner to do its bit. The resources of the two firms are sequentially interdependent, and the firms must customize resources to some extent so that handoffs between the firms go smoothly and without any external or internal disturbance or interruption (Singh et al. 2005).

3. Reciprocal Synergies
Firms generate reciprocal synergy by executing tasks through an iterative knowledge sharing process and working closely. Firms not only have to combine resources but they have to customize them in a great deal to make them reciprocally interdependent (Singh et al. 2005).
3.11 Draw backs of Acquisitions

According to Singh et al. (2005), companies should avoid taking over other firms when the degree of business uncertainties is very high, and it is a good idea to avoid acquisitions when companies wants to generate synergies by combining human resources. They argue that research suggest that employees of acquired companies become unproductive, because employees are disinclined to work in the predator's interest and believe that they have lost freedom. People often walk out the door after acquisition. According to Dyer et al. (2004), people tend to leave high tech firms when bigger companies absorb small ones. Consequently, these factors trigger post acquisition trauma.

3.12 Acquisition and entrepreneurship

Acquisition can be a way to release entrepreneurial activities in a firm, and growth via acquisitions may generate entrepreneurial benefits over the long run. This may not be present in green field establishment or in organic growth. Acquisitions may also revitalize a firm and improve its ability to anticipate and to react to changing external business conditions (Salvato et al. 2007). They also contend that these positive outcomes will only accrue to acquiring organization. When acquisition growth is coupled with the development of acquisition capability i.e. with accumulation, storage and exploitation of fresh organizational knowledge. By carefully administrating the controlled shocks induced to firm by acquisitions, insightful entrepreneurs can regenerate a new wave of growth (Salvato et al. 2007). According to Kogut and Zander (1992), passing of time gradually reduces the variety in firm's knowledge resource base and capabilities it needs for future survival and growth. According to Salvato et al. (2007) acquisition may be a good strategic response to ossification, simplicity and resource maturity.

3.13 Acquisition capability Emergence

3.13.1 Learning from Experience

According to Salvato et al. (2007) acquiring companies learn from their acquisitions experience. Acquiring companies also take external advice or experts to achieve synergy and successful integration of target companies. Acquiring companies also hire managers during time of important acquisitions, having previous experience of acquisitions from large companies. They found that some SMEs hired managers with acquisitions and integration experience before they were needed. Such an approach is characteristic of the SMEs which excel in managing rapid growth. Such SMEs often develop and hire today the managerial team they will need for tomorrow (Salvato et al. 2007, pg. 299).

They also observed that companies which are involved in more than one acquisition, gradually develops organizational tools that allow companies to achieve and accumulate acquisitions knowledge or organizational knowledge. Companies use such practice and managerial tools to gradually organize knowledge on the underlying cause of failure and success they experience, commonly referred to as know why or the operational means which can ensure success in acquisitions, more clearly know how.
They also observed a constant element, which is the gradual emergence of quantitative parameters or simple rules that can offer guidance to those involved in acquisitions. Moreover these simple rules are always expressed clearly by company heads and most of the time repeated with very little variation by the other members of top management team as well. They further comment that the companies heads are personally involved in acquisitions and second all managers are actively involved in each stage of the acquisition process. These stages include from identification and evaluation of the target to the integration and management of the acquired companies. Besides effectively learning and accumulating the lesson learned, companies that have past experience of acquisitions also have attributed to correctly applying such knowledge (Salvato et al. 2007).

According to Salvato et al. (2007) integration of the acquired companies requires particular involvement by managers approximately at all levels. One their finding was that, on the subject of integration, manager spontaneously compared the decisional paths the acquisition process applied by their companies with those of their main competitors, which sometimes are large multinationals with widespread ownership base.

By carefully understanding the emergence of acquisition capability in the SMEs context a novel perspective is offered for addressing key question in entrepreneurship studies. Notably how and why some successfully growing firms intelligently avoid the traps embodied in arising simplicity and resource maturity while other SMEs don't, Davidsson (1991) and Miller (1983).

**Strategic Capability**

Jemison (1988) defines the strategic capability as, "a firm’s ability to explore its resources, knowledge, skills or ways of managing, which would result in developing or sustaining a competitive advantage; however a strategic capability doesn't need to be unique to the firm” (cited in Jonsson & Noren, 2005, pg. 7).

**Dynamic Capability**

Teece, Pisano and Shuen (1997) define the dynamic capability as the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments.

**Strategic Renewal**

Strategic renewal is an evolutionary process associated with promoting, accommodating, utilizing new knowledge and innovative behavior in order to bring about change in organization’s core competencies and/or change in its product market domain (Floyd & Lane, 2000).

The activities, artifacts and cognitive processes (ACAP) are illustrated in the model. According to Salvato et al. (2007) the first dimension of ACAP that affects a firm ability to make acquisition is given by processes aimed at acquiring and assimilating external knowledge. ACAP is the dynamic ability to create and deploy knowledge (Teece et al. 1997). According to Zahra and George (2002) and Salvato et al. (2007), such abili-
ties allow firms to build other organizational capabilities, for example recognition of external growth opportunity in the form of acquisitions, transfer of resources and recombination to create value.

**Figure 2: A process model of acquisition capabilities development in SMEs**

Three individual phases are described in the model which is following as,

1. The creation of knowledge of acquisitions (learning of lessons).
2. Systematic accumulation of organizational memory linked to acquisition (archiving of lesson learned).
3. Creation of structures and managerial practices aimed at correctly recalling (use of lesson learned).

Salvato et al. (2007) also observed that the routines and capabilities that develop during the acquisition and integration process are of a very special kind.
4 Method

This Chapter describes the methods selected to collect and analyze empirical data in order to fulfill the purpose and answer the research questions.

4.1 Research method

This chapter presents a comprehensive description of the procedures used in this thesis. The relevant research approach, chosen research methods and reasons for choosing a case study are also presented. In the later part we explain the concepts of credibility and reliability. At the end a presentation and analysis of empirical finding has been given.

Strauss and Corbin (1998, pg. 4), assert that methodology is a way of gathering knowledge about the social world. According to Saunders et al. (2007, pg. 602) the research is defined as, “The systematic collection and interpretation of the information with a clear purpose to find things out... research methodology is a theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which the research is based and implications of these for the methods or methods adopted.” According to Ghauri and Gronhaug (2005), research methodology can be expressed as a system of roles and procedures.

4.2 Research approach

According to Saunders et al. (2007) the research approach is a general term for inductive and deductive research approach. Therefore we can say that there are two types of approaches for research. We will elaborate them one by one.

Deductive approach is one in which you develop a theory and hypothesis and design a research strategy to test the hypothesis and inductive approach is one in which you would collect data and develop a theory as a result of your data analysis (Saunders et al.2007, pg. 116). According to Ghauri and Gronhaug (2005, pg. 15), deduction draws conclusion through logical reasoning. In deduction approach observations/findings are the final outcome (Bryman & Bell, 2003). In other words deduction requires a process in the following order.

```
Theory                                 Observations\Findings
```

In inductive approach the theory is developed or built through as a result of data analysis (Saunders et al. 2007). Ghauri and Gronhaug (2005) also support this view of that in inductive approach conclusion is drawn from empirical observations. In a simplified way we can express as.

```
Observation/Findings                          Theory
```
4.2.1 Chosen method – Inductive approach
The research approach chosen for this thesis is inductive approach, because conclusion is drawn from the empirical observations by using two case studies of two I.T. firms, SYSteam AB and Sigma AB. The inductive approach also deals with qualitative research, which we performed during in-person semi-structured interviews.

4.3 Data collection

4.3.1 Research methods
According to Saunders et al. (2007, pg. 602), “methods are techniques and procedures used to obtain and analyze research data, including for example questionnaires, observation, interviews, statistical and non statistical techniques.” A research method (Ghauri and Gronhaug, 2005) refers to a systematic, focused and orderly collection of data for the purpose of obtaining information to solve or answer particular research questions or problems in hand. Researcher emphasizing the same thing often uses the techniques and methods terms. However if we read between the lines, the most of researchers argues that these terms are different in their intrinsic meanings. The term method involves data collection through historical review and analysis, surveys, field experiments and case studies while the term technique in literal meaning involves a step by step procedure of gathering data and data analysis for the purpose of the finding the answers to questions. According to Saunders et al. (2007) this combination of both techniques and research methods can be used in collection and analysis of data either by means of qualitative and/or quantitative methods.

4.3.2 Quantitative research
According to Saunders et al. (2007, pg. 145) quantitative is predominantly used as a synonym for any data collection techniques such as questionnaire or data analysis procedures such as graphs or statistic that generates or uses numerical data. Amaratunga et al. (2002), pointed out that quantitative approach grows out of strong academic tradition that places considerable trust in numbers that represents opinion or concepts. According to Ghauri and Gronhaug (2005, pg. 110) quantitative research focuses on social structure.

4.4 Qualitative research
According to Ghauri and Gronhaug (2005, pg. 110) qualitative research is a mixture of the rational, explorative and intuitive where skills and experience of the researcher plays an important role in the analysis of the data, in contrast to quantitative, qualitative research most often focused on social process.
According to Saunders et al. (2007, pg. 145) qualitative is used predominantly as a synonym for any data collection techniques such as interviews or data analysis procedures such as categorizing data that generates or use non numerical data. Qualitative data therefore can refer to the data other than words, such as video clips and pictures.
4.5 Quantitative verses qualitative research

The main difference between quantitative and qualitative research is not of quality but of procedure, as argued by Ghauri and Gronhaug (2005). Most of authors emphasize that the basic difference between a quantitative and qualitative research is considered to be that quantitative research employs measurements, where as qualitative research doesn’t employ measurement.

4.6 Material collection

4.6.1 Primary data

Blaikie (2003) asserts that primary data is a new data generated by a researcher responsible for the design of the study and collection, analysis and reporting of the data. Whereas secondary data is raw data which already collected by someone else, either for some general information purpose, such as government census or another official purpose or for a specific research project. According to Bailkie (2003), this new data is generated from the primary resources through questionnaire, interviews or observations to find answers related to specific research project.

We got our primary data through interviews and secondary data through literature and articles. Literature collection was gathered from several books, articles, and dissertations which gave fundamental understanding since they provided a broad range of information within the subject.

We collected most of data related to our research is of primary kind, but at sometimes we used secondary data to support our observation/findings and analysis by using secondary data as well. We studied companies reports, facts and figures, history, financial statement, frequently visited their web pages to get more updates.

4.7 Qualitative research

We choose qualitative research approach in finding the answers of our proposed research questions, which is to investigate the growth strategy of SYSteam AB and Sigma AB. Wigren (2007) asserts that a qualitative study focus on understanding in its naturalistic setting, of a certain phenomenon (e.g. growth) or entity (e.g. SYSteam AB, Sigma AB) and depending upon assumptions about ontology and epistemology, hence different qualitative approaches and techniques are applicable.

According to Auerbach (2003), qualitative research involves analyzing and interpreting texts and interviews among others, having a purpose to investigate specific pattern such as looking how firm decide upon acquisitions as opposed to other form of growth. In qualitative research we explore an object or phenomenon in close approximation to reality (Saunders et al. 2007). According to Saunders et al. (2007) a qualitative research makes reference using pictures, videos and or audio clips when referring to data.
In conjunction to this we recorded audio clips when collecting our data in form of inter-views and referring back to it during our empirical findings and analysis. The main aim of the quantitative research strategy is to collect data from different responses and subsequently measure their response. The main issues of the quantitative research strategy are the use of formal measurement, the use of many observations, and the use of statistical analysis techniques.

The qualitative data analysis also provides the description of the phenomenon, build a theory and after that test it. The main advantage of this method is the ability for the researcher to discover new variables and relationships, to disclose and comprehend complex processes, and to describe the influence of the social context (Shah & Corley, 2006).

The research method we used in this study is qualitative. According to Walker, Cooke and McAllister (2008) qualitative research methods help in analyzing the complexities and in analysis and acquiring a comprehensive understanding of the concepts. Qualitative methods are useful when concepts have not been explored in their entirety and for general understanding. This is also supported by Haberman and Danes (2007). This is the case with acquisitions in I.T. SMEs as the majority of research had been carried out on multinational corporations. In order to provide an understanding for why acquisitions are the preferred mode of growth, we deemed it necessary to gain the opinions of top management in I.T. firms. Furthermore data collection and data analysis both required the concepts from previous literature and the application of those concepts in reality. Hence it was natural for us to select the qualitative approach to our thesis.

4.8 Our instrument of qualitative research

4.8.1 Case study

When undertaking a qualitative approach, then case study is an option to conduct such research (Yin 2003). When dealing with questions such as what, why and how, case study is the best strategy (Chetty, 1997). Our thesis is conceptual in nature, as we are investigating acquisition strategy, therefore conducting observation would have been impossible within our timeframe.

Furthermore there was insufficient data concerning acquisition strategy in SMEs for the authors to examine, which precipitated the need to conduct case studies with interviews. Yin (2003) also states that when dealing with complex phenomenon, then the need for strategies such as case studies arises. In order to fully explore an issue, case study is considered to be a natural choice, according to Chetty (1997). The intention of this thesis is to answer the research questions in order to investigate acquisition strategy of SYSteam AB, Sigma AB in Sweden. Therefore, considering our proximity to such I.T. firms, case study was the most practical and logical choice for data collection. Saunders et al. (2007) also support the notion that case study has a natural ability to generate detailed answers to the research questions.
4.9 Interview

According to Bryman and Bell (2003) interviewing is the mostly widely utilized method in qualitative approach for conducting an investigation. It provides researchers and the targeted participant to interact. In our research, we collected our empirical data through interviews in order to find answers to our proposed research questions. We recorded the exchange, and also took notes whilst interviewing with the potential interviewee of our target companies. By conducting in-person interviews we captured the respondents expression and description of activities in their natural context as argued by Flick (2009). It is also very important to see through the eyes of participants and understand their meaning in locally prevailing conversation context (Bell & Bryman, 2003).

According to Johnstone (2007) the level of structure is an important factor in the choice of the design of interviews and a highly structured interview can be a better choice to collect data more quickly even by using less trained interviewers. Consequently we decided to come up with semi-structured interviews. The semi-structured interviews are not standardized, the data is more qualitative, and the interviewer just has a list of questions and themes that they would like to have answered. Depending on the interviewee and the conversation, the interviewer can regulate the order of the questions and add more questions if it is needed to explore the topic further. Following this, we offered questions and related topics related to our purpose of the interview, to acquire their insightful perspective which proved very beneficial for us.

We sent our preliminary questionnaire one week before the interview date to the specific interviewee. The purpose of this was to allow the participants to prepare their responses. This was very important to increase the quality of the date we gathered. But it doesn’t mean that we limited or forced the interviewees to select from preconceived choices as proposed by Johnstone (2007), but to give a kind of general idea concerning the area of our research. This helped our potential interviewees to clarify their opinions with facts, figures and internal documents, which they brought to the table of discussion. As argued by Saunders et al. (2007), we had a list of questions and topics to be covered during the interviews sessions.

Regarding our open ended questions we tried to offer the interviewees the opportunity to express their motivation, perspectives in their own understanding and words, but meanwhile we exercised a degree of control, as argued by Bryman and Bell (2003). On the table of interview we had adequate topics outlined as growth, strategic intentions, acquisition strategy. As argued by Scheurich (1997), this helps to stay focused and clear during interviews. The interviewee answered our open ended questions on the basis of their readily available knowledge and added more credibility to our data, as stressed by Flick (2009).

According to Polit and Beck (2007) in case of structured interviews based on closed
ended questions, often respondent find themselves being forced into choosing from response options which don’t reflect their opinion profoundly accurate. According to Johnson and Turner (2003), being nonjudgmental during an interview is important in avoiding potential biasing effects of our experiences and theories. To our best understanding we remained nonjudgmental and unbiased from conscious effect of our theories. During the process we re-ordered, re-worded and reformulated our questions in a proper sequence in order to streamline the flow of the interview, depending upon the situations. To achieve comprehensive data, as argued by Morse (1994), we spent more than two hours with each interviewee.

Since this thesis is a qualitative study of I.T. firms, we have used a more of a semi-structured interview approach when meeting with employees of the companies to obtain valid information. This choice of approach was chosen because we wanted to have a structured foundation to rely on, and also include opportunities for additional questions to get a more in-depth view.

<table>
<thead>
<tr>
<th>RESPONDENT</th>
<th>POSITION</th>
<th>COMPANY</th>
<th>LOCATION</th>
<th>DATE/TIME</th>
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<tbody>
<tr>
<td>JAN PETTERSONN</td>
<td>HEAD OF STRATEGY AND BUSINESS DEVELOPMENT</td>
<td>SYSteam AB</td>
<td>HEADQUARTER JÖNKÖPING</td>
<td>18th May, 2010</td>
</tr>
<tr>
<td>LARS SUNDQVIST</td>
<td>CHIEF FINANCIAL OFFICER</td>
<td>Sigma AB</td>
<td>HEADQUARTER JÖNKÖPING</td>
<td>10th May, 2010</td>
</tr>
<tr>
<td>JOAKIM BREIDMER</td>
<td>HEAD OF ACQUISITIONS</td>
<td>SYSteam AB</td>
<td>HEADQUARTER GOTHENBURG</td>
<td>6th May, 2010</td>
</tr>
</tbody>
</table>

*Table 1: Interviews with SYSteam AB and Sigma AB representatives.*
4.10 Presentation and analysis of the empirical findings

The first step prior to conducting the interviews was to transcribe the interviews putting the exact responses of the participants into word format. It became apparent in one interview that the quality of the respondents English was of insufficient standard to directly quote, so it was necessary to paraphrase their responses. According to Saunders et al. (2007) the process of data cleaning poses potential problems concerning transcription errors. However we believe we succeeded in minimizing any loss of information or misinterpretation. In order to ensure factual accuracy, we sent the transcripts of all three interviews to the respondent so that they could confirm we had accurately interpreted their responses. We received feedback from all three respondents confirming this was the case. Saunders et al. (2007) outlined four general procedures for analysis of qualitative data. These are:
1. Categorization
2. Unitizing data
3. Recognizing relationships and developing the categories you are using to facilitate this.
4. Developing and testing theories to reach conclusions.

For the process of categorization it was necessary for the authors to refer back to our research questions in order to establish distinct categories for which we could assign the various data to. In doing so we produced five categories:
1. Background information (from which we produced company history and acquisition portfolio).
2. Growth strategy
3. Acquisition motives
4. Acquisition capitalization
5. Acquisition and entrepreneurship and emergence of acquisition capabilities.

Following this we reviewed the transcripts and selected the relevant parts of the answers which pertained to the relevant category. Since the interview questions were derived from the frame of reference and the frame of reference was channeled by the research questions, there was a logical order and fit to the ensuing process.
Once we had our empirical findings in order, we started to review the framework in light of these findings and from here we were able to draw distinctions as to which theories our findings supported and which they did not. Reviewing synchronicity of the two data sets allowed us to make comparisons between the two different companies in relation to the frame of reference.

4.11 Reliability and validity of research findings

Validity and reliability are the two main components to guarantee the quality of the study being performed. As Sykes (1991) explains that it ensures the extent to which the
researcher gains access to the target participants’ experiences and knowledge, and it also makes possible to infer meaning from the language. Sunders et al. (2007) and Ghauri and Gronhaug (2005, pg. 80) define validity as, “the extent to which data collection method(s) accurately measures what they were intended to measures.”

According to Ghauri and Gronhaug (2005), validity in qualitative research is classified into three categories, internal and external validity and constructs validity. Internal validity refers to extent to which theory is in agreement or ally with the empirical findings. External validity refer to extent where findings can be generalized to particular entity, person and times and specific settings. Besides these two forms, construct validity is the most important, and according to Zaltman et al. (1977) can be defined as “the extent to which a study measures the concept which it’s imply to measure.” Reliability refers to the extent to which data collection techniques yield consistent findings similar observation would be made or conclusion reached by other researchers (Saunders et al.2007, pg. 609). Reliability is the stability of the measures (Ghauri & Gronhaug, 2005, pg. 81).

Saunders et al. (2007) refer to Robson’s (2002) four threats to reliability, subject or participant error, subject or participant bias, observer error, and observer bias. The researchers should consider the fact that the interviewees might give different answers depending on their mood the day the interview took place; would they respond the same way on a Friday as a Tuesday? This is referred to as subject or participant error. We do not think this would result in any misleading information for our study since it is based on three interviews and the answers are similar at each level. The subject or participant bias are issues regarding if the interviewees sharing their real point of view or are they providing us with the information they are expected to do from instance supervisors (Saunders et al. 2007).

Two other threats to reliability are regarding the observers of the interview. Observer error is the problem that occurs when more than one person performs the interview, different people might elicit different opinions from the interviewees. In addition to this is observer bias, which is if two or more conduct the interview, there are different ways to interpret the answers (Saunders et al. 2007). This has been solved by sending the results from each interview to the participants. This is to make sure that we interpreted the answers as the interviewee answered, and to also eliminate any misunderstandings. When conducting interviews one can increase both the validity and reliability by provide interviewees with information about the interview beforehand (Saunders et al. 2007).

Therefore data collected through interview must be trustworthy in order to reliable and valid. During the process of data collection authors of this thesis tried to every extent to counter above explained threats to validity and reliability.
5 Empirical finding

This Chapter describes the information that we have obtained from interviews with representatives of the two companies. (The questions asked during the interview can be found in the appendix)

5.1 Interviews with Joakim Breidmer and Jan Pettersson.

Joakim Breidmer is one of two executives who deal with acquisitions in SYSteam. Joakim is in charge of the control process associated with acquisitions. It is his responsibility to assess potential companies for acquisition, and present his recommendations to the board. Joakim has learned everything he knows about acquisitions during the 10 years in which he has worked for SYSteam.

Jan Pettersson is the head of strategy and business development and joined SYSteam in 2006. He previously held management positions in large firms including, Electrolux, Husqvarna and ABB.

All the findings are generated by conducting in person interviews with SYSteam’s respondents.

5.1.1 Short introduction of the SYSteam AB

SYSteam was formed in Huskvarna in Sweden in 1984 by Arne Nilsson, Claes Rosengren and Stig-Olof Simonsson, all of whom are entrepreneurs with a background in the I.T. sector. Ever since its inception SYSteam has been an entrepreneurial driven company. Today SYSteam has more than 1,200 employees and the net sale in year 2008 was 1,750 million kroner, and from period 1998 to 2008 average sale increased by 14.7%. SYSteam has a very large customer base and the number mounts to around 4000 including some big key customers. SYSteam has 94.2% of its market in Sweden, 1.9% in Denmark and 3.9% Finland. They have about forty offices in Nordic countries and headquarter in Huskvarna, Jönköping.

5.1.2 SYSteam’s organizational structure

![SYSteam’s organizational structure](#)

*Figure 3: SYSteam’s organizational structure (SYSteam Annual report, 2008).*
The above figure shows SYSteam’s organizational structure which includes a specific unit for acquisitions.

5.1.3 SYSteam’s offerings

![SYSteam's organizational structure](image)

Figure 4: SYSteam’s offering (SYSteam Annual report, 2008).

5.1.4 Portfolio of acquisitions

The second half of the 1980’s is characterized by favorable market conditions and strong growth. In 1988, first expansion outside the Småland region takes place in Stockholm. Their first acquisition was made in 1988 after four years of its inception. SYSteam acquired its first company in Stockholm to expand its business in Stockholm market; so far SYSteam has performed more than 70 successful acquisitions. SYSteam established in Norway in 1997 through the acquisition of Alfasoft. In 2000, SYSteam established operations in Uppsala via acquisition of Udac with 130 employees. SYSteam established in Finland in 2000. In 2003, SYSteam strengthened the market position within Microsoft Axapta and acquired the Swedish and Finnish operations of Hands with 160 employees and thereby gave SYSteam a critical mass in Finland. In 2005, SYSteam made three major acquisitions with combined sales of SEK 170 million and around 90 employees. The acquisitions include the retail operations from Atos Origin, Implementa in Karlstad with expertise within the forest industry and the ERP-system Movex and Office in Borås with focus on infrastructure and outsourcing. So far SYSteam has acquired more than 70 companies with a contribution of more than 70 percent of total revenue. They have bought companies comprised of one employee to 130 employees. The average size of the company SYSteam has acquired is 15 to 20, with an average turnover of 15 to 20 million kroner.
5.1.5 Growth strategy

A central part of SYSteam’s growth strategy revolves around the organizational structure of the company. SYSteam is a much decentralized organization, however they have very close collaboration with the autonomous subsidiaries. The top management asserts very limited directives concerning strategic direction. The process of strategic formulation takes place both bottom up and top down (Jan Pettersson).

The key resources of SYSteam are the 100 (60-70 operational) CEOs, the knowledge and their approximate 4000 customer base. One of SYSteam strengths is their independence from key customers as only 20% of their revenue was attributed to their 20 largest customers (Joakim Breidmer & Jan Pettersson).

In 1988, SYSteam made their first acquisition with a company based in Stockholm. They made the decision to pursue acquisitions as a growth strategy in 1986. In order to execute this acquisition they developed their resources internally (Joakim Breidmer). The reason for acquiring in Stockholm was to gain access to the largest market in Sweden, and also to be closer to one of their key customers. During 1988, SYSteam consisted of 10-15 employees and the acquisition was deemed to be a more viable growth option. In comparison to organic growth because organic growth would have been too consuming in terms of time and other resources. Furthermore they lacked the contacts/links within that region. This strategy was implemented in order to overcome the limitations of organic growth. This was the strategic path chosen by the founders of SYSteam and their following acquisitions in the different regions of Sweden and Scandinavia were based upon this principle (Jan Pettersson).

At present SYSteam include market opportunities within their acquisition strategy. SYSteam makes extensive statistical analysis upon the related sectors. This includes total spending within a specific sector, current billing, and potential billing which SYSteam could exploit. They formulate their general strategy based upon this analysis, as they can ascertain how much of their growth needs to come from organic growth and
acquisitions respectively (Jan Pettersson).

Growth is very important for SYSteam, and this is reflected in their ambitious plans for the future. Joakim Breidmer presented an internal document illustrating the forecasted growth of SYSteam, which showed a steep incline in sales until 2014. Jan Pettersson later added that SYSteam was not satisfied with the current rate of acquisitions as he did not think they were acquiring enough companies to achieve the 2014 target, “we have to speed up” (Jan Pettersson).

SYSteam primarily measures their growth in terms of revenue, with a focus upon profits as this is a fundamental factor in the firm’s survival. However Joakim Breidmer also stated that SYSteam considers the size and number of people present in the company. As stated above, SYSteam has made more than 70 acquisitions since their inception. This contributed approximately 1300 million kroner of their annual net sales (1800 million kroner), and acquired approximately 1000 out of their 1200 employees workforce. However Joakim insists that their growth is the result of internal growth and acquisitions, with on an average 50/50 ratio as 60/40 or 70/30 would be too risky.

“We say 50/50 as an average but some years it can be more. We have acquired 1000 employees out of 1200” (Joakim Breidmer).

In order for SYSteam to pursue acquisition strategy they need the money to buy firms and this is what balances organic and inorganic growth as they simply don’t have the possibility to buy every company they wish to.

“...We cannot buy, buy, buy...we must grow by ourselves and this is important, so we follow this with figures every month” (Joakim Breidmer).

Jan Pettersson defines SYSteam’s growth strategy as, “to be the best in the SME segment in Sweden, strong in Finland and a leading position in Denmark, we shall grow both organically and inorganically.” SYSteam sees themselves as the leader within the SME market, and as such do not target the larger size customers. They mainly pursue companies of smaller size with an approximate turnover of 100 million kroner up to 1000-4000 million kroner. Concerning the role of the founders in growth strategy, Joakim sees their role as having been very positive and important for SYSteam as one of them is still a member of the board, and one acts as a coach for managers in SYSteam.

5.1.6 Acquisition motives

Simply stated the main driving force behind SYSteam’s acquisitions is, “to grow whilst making profit under the growth tree.” Jan Pettersson explained that SYSteam never lose money even when pursuing acquisition, but at the same time we are not the best in terms of profits, “but we never lose money this is something we are proud of at SYSteam.” He also went on to explain that SYSteam will not grow so fast that they would risk losing money.

Jan Pettersson holds the view that it would be impossible for SYSteam to achieve its target without acquisitions. According to Joakim Breidmer there is no single reason for
why SYSteam acquires companies in other localities or cities. It could be to expand the product market range, market share, or to acquire new customers and new technologies. Furthermore SYSteam thinks about buying new companies so that they can sell existing offerings to the new customer base. An acquisition for SYSteam presents a unique opportunity to create advantages over their competitors in a very short time, by grasping a larger market share. In terms of what is acquired, when SYSteam acquires a company, Joakim states that in some cases it is a product, but in most cases it is people. He argues that human skills, new industry contacts and customers are what SYSteam are interested in.

Another major influence upon SYSteam’s motive for growth is their key customers. Joakim says that it is ultimately the customer who has the main role in our decisions, as their own growth assists us in our growth. SYSteam has approximately 20% of their customer base defined as key customers. As such companies have grown themselves, this has put more pressure upon SYSteam to evolve in order to serve their customers efficiently and to fulfill their demands. As the customers grow larger and expand into different regions, then SYSteam reacts to this change by acquiring firms which by having them, will enable SYSteam to serve the customer wherever they are needed.

There is also a second dimension to the influence of key customers upon SYSteam’s acquisition strategy. When SYSteam enters into negotiation with a company if that company has a key customer of its own, it is very important to SYSteam that the customer wants to work with SYSteam. If in any case the key customer does not want to work with SYSteam then they don’t acquire the company. This has become of such importance that they make talks with the key customers of a potential company part of the due diligence process.

Jan Pettersson further added that the ability to create cross selling opportunities with the companies that they acquire and their customers was of paramount importance, and a key motive in his opinion, “we want to offer more to the newly acquired companies.”

SYSteam pursued geographical expansion within Sweden with the simple notion that we should buy in towns where we don’t have offices. According to Joakim this will be their strategy for the future as well, as they have a lot of opportunities to capitalize upon in Sweden and Finland. SYSteam has the vast majority of their offices located within Scandinavia. However they do have key customers present in Europe, so whenever SYSteam employees are needed, they are flown out to where the customer is. There is however one case where SYSteam acquired a company in India, as they had a customer based there. In order to provide the same quality of service and be close to the customer, it was deemed necessary to set up an office. The close proximity to their customers is a top priority for SYSteam and was a major reason behind their first acquisition in Stockholm, as they had key customers located there, “we want to follow the customers.”
5.1.7 Acquisition capitalization

One of the main ways of achieving synergy between the acquired firm and the mother company is through cross selling.

“We come with a big customer base and they come with a customer base, so we exploit the two different customer bases.” This is on the basis that they come with good knowledge and product, paralleled with strong I.T. support. If this is the case then we offer them a customer base of 4000 to sell to (Jan Pettersson).

SYSteam mostly buy companies with a Price/Earnings ratio of 4-7%. When we have a strong business case either in Finland or Denmark, we go for it. We position the newly acquired company horizontally along with our other daughter companies, “we get our strength from our daughter companies.” In order to ensure knowledge and capabilities are transferred, SYSteam has networks in areas like project management, systems development, sales etc. whereby newly acquired employees can communicate with the employees of SYSteam (Jan Pettersson).

To capitalize upon the knowledge of firms acquired, SYSteam includes this in their integration plan. When a company is acquired, SYSteam firstly changes the board members so that the culture of SYSteam can be implemented. However they rarely change the managing director of the firm, in fact as their philosophy is “We buy people” if the manager is not “with us on the trip” then SYSteam does not buy the company. SYSteam does however insist that in the majority of cases, a member of SYSteam be present to take on the role of coach, but only in the beginning. Part of the integration process involves the new management meeting other leaders from SYSteam so that they are familiarized with the culture, the product and the offerings (Jan Pettersson).

When SYSteam was first established it struggled with the acquisition process due to a lack of resources, but as the company has developed, so have its resources and therefore its ability to pursue acquisitions. Now every CEO of the subsidiary thinks in terms of potential acquisitions targets. If a CEO has an idea, then they approach Joakim, where they are then helped to produce a business case illustrating why the company is a good target. After that the process can begin, however it is always the mother company who carry out the acquisition process.

Aside from suggestions from the CEOs of the subsidiaries, Joakim Breidmer always has approximately 10-15 companies which are under consideration for acquisition. Although SYSteam refrains from using external experts in the acquisition process where possible, due to high costs associated, they do occasionally use brokers who provide analysis of potential company especially in foreign markets such as Finland. SYSteam also on occasion, use lawyers and accountants, but Joakim Breidmer was insistent that wherever possible SYSteam utilizes available competence within the company.

In order for the board to give the go ahead for an acquisition, Joakim Breidmer must first motivate why SYSteam would benefit from incorporating the potential company. Furthermore Joakim Breidmer must illustrate the case for why it is not possible to
achieve similar growth through organic growth. In order to do this the business case is a necessity.

During SYSteam’s acquisitions history, there have been a few failures in the acquisitions of companies. According to Joakim Breidmer the primary cause of this has been cultural clashes. SYSteam’s ethos was best summed up in a phrase used many times during the interview “we buy people.” Joakim Breidmer went on to explain that if the people acquired in the company are not happy working for SYSteam then the acquisition will most surely fail. This has been the case in the past, with employees quitting soon after being acquired. Culture is another factor which has been incorporated into the due diligence process as it has such a crucial role in the success of an acquisition.

5.1.8 Acquisition and entrepreneurship and emergence of acquisition capabilities

According to Joakim, acquisition brings new ideas, knowledge and competence within SYSteam. The combination of new employees, leaders, customers and products have also helped to introduce entrepreneurial activities, as they have a history of very successful spin offs of new business entities outside of SYSteam as new independent business units. SYSteam’s history of acquisitions has enforced entrepreneurial behavior within the company.

“Our more than 100 (60-70 operational) CEOs of the daughter companies are always open to new ideas and new businesses, so it is kind of a virtuous cycle” (Joakim Breidmer).

When SYSteam first started with their acquisitions, they only concentrated on the buying process, and failed to take into account the financial, cultural or legal issues in the due diligence process. SYSteam has developed their competence of acquiring companies/people over time and the introduction of the acquisitions unit, has been a huge factor in their development. SYSteam has developed their competence at acquiring companies and as such state that “…Now we have a process and are much better at integrating them into SYSteam...you can see from our financial reports that we have been successful. We grow every year” (Joakim Breidmer).

SYSteam uses many internal documents, such as plans as to how to integrate newly acquired companies, specific plans how to acquire companies of large and small size and a plan over the process after the negotiation has taken place with the sellers (Joakim Breidmer).
These documents have been developed internally based upon internal learning and experience, but they also learn from larger companies by reading about how they conduct their acquisition process. Furthermore SYSteam actively benchmark other companies of relevance for example Logica, Atea and smaller ERP companies. To stay updated with any developments SYSteam produces reports every quarter upon the benchmarked companies.

In order to make sure SYSteam learn from the failures and the successes, the acquisitions unit always follows up every acquisition three years after and presents to the board. In order to minimize the risk of acquisition, SYSteam has implemented a payment process whereby they split the payment into two parts. The first part is paid to the company immediately. Then the other part is paid over a two year period to ensure that the company stays at SYSteam. After the second year it is very important for SYSteam to know where the other company stands, and this is part of their strategy as they are primarily concerned with acquiring the people within the firm, and it is important that they stay.

5.2  Interview with Lars Sundqvist: CFO of Sigma AB

Lars Sundqvist has held the position of chief financial officer since June 2001, before this post he served as financial manager for three years at Allgon Microwave AB. Lars Sundqvist has extensive experience of working with acquisitions.

All the findings are generated by conducting in person interview with Sigma AB respondents.

5.2.1  Short introduction of the Sigma AB

Sigma started as SAPA consultant in 1986, by the entrepreneur Dan Olofsson focusing upon engineering services. In 1996 he decided to create a larger group and to list it. He then started to buy some relatively small business in the I.T. sector, which then formed the platform for present day Sigma. It was a view of creating something greater and to broaden it to other sectors than I.T. In 2001 after reaching approximately 4000 employees, due to a period of numerous acquisitions, Sigma split into three separately listed companies. The I.T. section of the original firm kept the original name and so Sigma AB was “born again.”

5.2.2  Organizational structure of Sigma AB

<table>
<thead>
<tr>
<th>Two Business Areas.</th>
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<tbody>
<tr>
<td>IT &amp; Management</td>
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<tr>
<td>700pers 80%</td>
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<tr>
<td>Informationslogistik</td>
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<td>400pers 20%</td>
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<th>Two Delivery models</th>
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<tbody>
<tr>
<td>Managed Services</td>
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<tr>
<td>Åtaganden</td>
</tr>
<tr>
<td>Specialized Services</td>
</tr>
<tr>
<td>Expert Consultation</td>
</tr>
</tbody>
</table>

*Figure 7: Sigma organizational structure (Personal communication with Lars Sundqvist)*
Sigma has two business areas with several subsidiaries in each that either cover a region or has a specialist competence. This is how they run their business in operations. Each business area has a business area director, and in each subsidiary there is a managing director. Legally there is a difference in how the subsidiaries are owned, however that is something Sigma only use for taxes and legal purposes.

### 5.2.3 Sigma’s offerings

Sigma area includes system development, I.T. management, business system, information logistics, functional sourcing and consultant services.

### 5.2.4 Portfolio of acquisitions

Presently Sigma has 1250 employees and annual sales of 135 million Euros. First acquisition was made in 1996 to expand in Danish market, now Sigma is present in 9 countries across the continents. In 1996, Sigma strengthened its positions within information technology through the acquisitions of Exxallon Group AB, and nBiT Affärssystem AB. In February 1997, Sigma AB listed on the Stockholm stock exchange O-list. In 1998 Sigma had 1000 employees. In 2006 Sigma acquired Eclipse SP in with almost 100 employees.

“Till now Sigma AB expanded internationally through large acquisition within technical documentation. Since the beginning of Sigma inception, Sigma has performed above 50 acquisitions… and we see more in near future” (Lars Sundqvist).

![Fig. 8: Sigma’s growth history by number of employees (Personal communication with Lars Sundqvist).](image)

1996-2001. From nil to 1300 employees
2004-2007. Growth through acquisitions to 1200 employees
2008-2009. Consolidation of non profitable business down to 1050 employees
2010… Growing again
Sigma passed from SME to large sized company in 1996, after their third acquisition.
5.2.5 Growth strategy

Growth is a key to Sigma’s survival. Lars Sundqvist states that continuous growth is expected in today’s economy, and as such Sigma must pursue a growth strategy whereby acquisitions as well as organic growth are utilized. Lars Sundqvist believes that a 50/50 acquisitions/organic growth ratio is accurate over the long term, but due to the differing nature in the progress of the two types of growth in the short run, it is misleading to take this perspective.

“Organic is one small step a day, whereas acquisitions are done in leaps, so one has to measure it over some time” (Lars Sundqvist).

For Sigma, both revenue and the number of employees are used as a measure for growth; however he says the financial markets purely use revenue.

Concerning the role of the founders upon Sigma’s acquisition strategy, Dan Olofsson is chairman of Sigma and with majority ownership of approximately 30% of the total firm’s capital. He is still very much involved on the strategic level. Within Sigma the responsibility for acquisitions lies with the management team as there is no special unit dealing exclusively with these. Although there are relatively few members, Lars Sundqvist maintains that the competence level of those involved with acquisitions in Sigma is high. However Sigma management does use the assistance of internal experts within the process, but rarely uses external consultants. The only exception is for issues relating to law.

In the past Sigma has acquired companies ranging in size from 10 to 400 employees; however they now focus upon companies with 40 to 150 employees as there is too much risk involved with smaller entities. Lars Sundqvist explained that if one key person leaves then the whole unit may fall apart. This has been the case in the past; with culture clashes being responsible for employees leaving after the acquisition has taken place. In larger units there is not so much focus upon a single individual, more on processes and culture.

Lack of resources have never been an issue for Sigma concerning acquisitions as they have always developed them internally and are of no great influence upon their growth strategy at present.

5.2.6 Acquisition motives

Sigma carried out its first acquisition in 1996, with a company in Denmark. According to Lars Sundqvist the motivation stemmed from the internet hype era when the company was growing just for the sake of growth. However there was logic behind the move to Denmark as Sigma emanates from Skåne and it was natural to grow abroad starting in Denmark. The motivations behind the following acquisitions was that it was a cheap and effective way of growing since Sigma was so high valued on the stock exchange. Sigma’s high value on the stock exchange meant that issuing new shares was an effective way of acquiring businesses. They also consider acquisitions as a way to acquire knowledge, volume in terms of employees and an efficient means of strengthening their position within a specific market segment. This also ensures that the company does not become stagnant as acquisitions bring an influx of new potentialities in the company.
Sigma chooses companies based upon superior value, not just head count. They view acquisitions as a way of buying customer relations, processes and know how. “Goodwill is basically what you pay for” (Lars Sundqvist).

Time is also a decisive factor in Sigma’s motive for acquisition as on average they acquire a 30-40 person firm, from start to finish in 4-6 weeks. However acquisitions can take anything between one week and nine months, depending upon the state of the sellers.

When it comes to reacting to competitors’ developments, Sigma partially ignores this and chooses to focus primarily upon what they serve best to their customers. Sigma chooses to concentrate upon the markets in which they already exist, when considering acquisitions. One of their strategies is to find new customers within their existing market segments. This also applies to their geographical expansion, as Lars Sundqvist describers the concept “dig where we are.” Acquisitions today are different from some 10 years ago. Today they must match to existing businesses and/or the customers. Growing for the sake of growth is completely obsolete and impractical. Sigma will not explore a new country or region just for the sake of growing, there has to be a fit somehow, but there is room for broadening within these limitations. Furthermore Sigma chose to concentrate upon their existing market segments as there are too much costs involved in growing by expanding the business to other areas. Sigma consider the customer to be of top importance when considering which companies to acquire, in the case that a customer enters into a new market then Sigma will also enter to accommodate.

Sigma does not place so much importance on key customers of the potential companies for acquisitions. In their history, they have only entered into negotiations once or twice as it was deemed crucial for the business. In most cases Sigma informs the key customers of its intentions, and if they have any objections then Sigma are informed. Lars Sundqvist states that the more common situation concerning customers and acquisition is that customers will contact Sigma requesting that they acquire a company who are a small unit, but are of great importance to the customer. As the customer deems it too risky to be dependent upon a small business unit, it requests that Sigma acquire the company and continue to deliver to them.

Sigma takes risk into consideration when pursuing acquisitions, however they take the perspective that there is no one single risk exposure, thus it cannot be measured. The risk also varies from company to company, so they do not measure it and then compare with what they anticipated to be a risk when first pursuing the acquisitions “that is history” (Lars Sundqvist).

5.2.7 Acquisition Capitalization

Sigma does not apply a strict rule as to how to integrate new companies. Whether they are integrated horizontally or vertically is purely dependent upon each case, and they never assume two cases are alike.

To achieve synergy between the acquiring and the acquired firms, Sigma takes the stance that integration is paramount.
“One must always do something, not just let the acquired company be, and then there will be no synergies. To achieve change one needs to do something different tomorrow than it does today” (Lars Sundqvist).

However integration can be applied to differing degrees, some companies have been left completely autonomous, some have been partially integrated, and some have been fully integrated. Again Lars Sundqvist states that it has to be judged case by case, and that no steadfast rule can be applied concerning integration. It is also during the integration process that structural changes are made to the company for example Sigma always replaces the board members of the acquired company immediately after acquisition. The only exception is if the former owners are part of the management team, in this case they usually remain.

With acquisitions, new managerial implications arise within Sigma for example how do they integrate the new company into their network and business model, what role can the former owners take in the new company and how can Sigma provide new challenges to the management team.

When considering how to transfer a newly acquired company’s knowledge, capability and competencies to the parent company Sigma opts not to. Part of Sigma’s strategy is that the parent company remains a holding and administrative unit. The knowledge of the acquired company stays within that firm, or alternatively if in rare cases we do integrate, it is between other smaller subsidiaries, not the parent company.

During Sigma’s history of acquisitions there have been very few failures. Sigma always has approximately 10 companies in consideration, but only 1 or 2 of those companies, will be taken to the negotiation phase. Sigma gathers as much information about the potential company as possible and then based on that either withdraw or proceed. “Very seldom we have failed after initiating more serious discussions where we have come as far as price and negotiations” (Lars Sundqvist).

Sigma does perform post acquisitions evaluation, however only on large acquisitions, never on smaller ones. Because it is very difficult to measure effects generated from synergies and what might have happened. Furthermore Sigma holds the view that it is almost impossible to measure the effect of the acquired part of the business after integration has taken place. Neither does Sigma benchmark companies in relation to acquisitions as standard practice as they prefer to concentrate on their own activities.

5.2.8 Acquisition and entrepreneurship and emergence of acquisition capabilities

Sigma supports the view that Acquisitions has developed their entrepreneurial initiatives and has contributed in providing new ideas, knowledge and competencies. Lars Sundqvist states that it is part of their culture, to be able to absorb new companies, due to their extensive history of acquisitions.

Sigma does not believe that their growth has affected their ability to react to small changes/opportunities in the market, especially not as a direct result of acquisitions.

Sigma does not use any internal models for acquisition or integration. They do have
knowledge of how to acquire, and old material which can be used to assist in acquisitions, but they do not have internal documents specifically for the acquisition process. Sigma views these types of internal documents as being too rigid and thus not applicable to individual cases.

Sigma’s choice to target companies of 40 to 150 employee size is the result of learning, as they had negative experiences in acquiring companies of smaller sizes.

5.2.9 Other supportive data

This is our findings related to other I.T. firms operating in different regions, and the number of acquisitions they have done since the days of their inception. We gathered this data by looking into each company website and also by sending to them mails. These all companies operate in I.T. sector and have grown from small to large size firms by means of large number of acquisitions. Someone can infer a comprehension that I.T. firms deploy acquisitions as mode of growth.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>YEAR OF INCEPTION</th>
<th>NO OF ACQUISITIONS</th>
<th>PERIOD</th>
<th>SIZE OF COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>PULSEN</td>
<td>1964</td>
<td>&gt; 20</td>
<td>1983 - PRESENT</td>
<td>LARGE</td>
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<tr>
<td>ATEA</td>
<td>1968</td>
<td>&gt; 39</td>
<td>1993 - PRESENT</td>
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<td>ERGO</td>
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<td>&gt;13</td>
<td>1989 - PRESENT</td>
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<td>NOVELL</td>
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<td>ACANDO</td>
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<td>1996 - PRESENT</td>
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<td>EDB</td>
<td>1961</td>
<td>&gt;50</td>
<td>1961 - PRESENT</td>
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6 Analysis

This Chapter links the empirical findings with the relevant theories and concepts from the theoretical framework. Each research question is connected to the theory and the analysis of the interviews.

6.1 Research question 1: What were the factors which led SYSteam AB to pursue acquisition?

In our theoretical framework we described many factors affecting the growth of the firm. These were entrepreneur growth orientation, adequate firm resources and existence of market opportunities (Pasanen, 2007). Some other authors also emphasize on the entrepreneur growth orientation. SME growth may be the consequence of the strategic choices of entrepreneurs (Hambrick & Mason, 1984). Entrepreneurial orientation is an effective measure of resource utilization, and the entrepreneurial judgment of the managers is a prerequisite for growth (McKelvie et al. 2006). According to Murray (1984, pg. 9) founders set very powerful rules concerning the proper and acceptable strategic moves. Consequently this may limit the future strategic choices of managers. In the case of SYSteam we also observed that founders played a key role in the current position of the firm. It was their ambition to create something larger, as we noted.

“SYSteam was started by three young entrepreneurs in 1984, since then they want to see their company as a leading business value provider in IT industry. The concept of survival, rapid growth and profitability were embedded in their minds. They wanted SYSteam to grow by leaps and bounds, and we feel very proud today that we are making it true… Their role has been very positive and important for SYSteam strategic planning, although they are not holding key strategic positions these days, but still their inputs are very important for us” (Joakim Breidmer).

SYSteam made their first acquisition in 1988, four years after the year of its birth. But they (founders) started thinking about the possible potential of acquisition in 1986. At that time SYSteam had less than 15 employees (Jan Peterson). The theme generated by our findings is in line with Gibb and Davies (1990); Pasanen, (2007), that the behavior of entrepreneurs strongly affects the intentions of the firm, and therefore the strategic behavior and subsequent growth is understandable in the light of its growth pattern. According to Smallborne et al. (1993), high growth can be achieved by a firm with variety of age, size and sector characteristics and one of the important factors is the commitment of the leader to achieving growth. This holds true in our findings regarding SYSteam leaders. This is also validated by Wiklund and Shepherd (2003) that entrepreneurial ability plays an important role in the growth of the small firm.

According to Bowman (1974), strategy can be viewed as continuous search for rent. Industry factors have a very significant impact on both the level of growth and the firm’s profitability (Porter, 1980; Schmalensee, 1985). According to Aldrich and Fiol (1994); Romanelli and Tushman (1986), organizations are constrained by the external environ-
ment they operate in and consequently organizational growth can be explained in terms of these environmental forces. Some researchers suggest that the period of high demand conditions such as industry maturity, industry growth, increases the chances of a firm’s survival (Gorman, 2001). Gorman (2001) argues that managers have to make two choices, first where to compete and followed by this how to compete. In our empirical findings we observed that SYSteam expanded firstly into Stockholm and later on into other regions, because it offered potential opportunities for SYSteam. Secondly they had customers there, so they felt a need to be close to the customers. We noted for SYSteam, “We always want to be close to our customer as much as possible” (Joakim Breidmer).

Furthermore we noted that SYSteam assess industrial and sector spending and formulate their future strategy accordingly. During discussion with Jan Pettersson he showed us how they decide upon which markets they should enter and which markets they should concentrate on more. This was done by statistical analysis, as they assessed the individual market volume, the potential volume which SYSteam could accommodate and the current level at which they accommodate for. Once this assessment had been completed, it was then up to the head office to allocate a percentage of the required turnover to each regional manager. Then it was the regional managers’ responsibility to assess to what extent this target can be achieved by organic growth, and what percentage needs to be achieved by acquisitions. This finding supports both Gorman and Penrose’s observation that manager must decide upon which markets to compete based upon changing productive opportunity.

The late 1990s was considered to be a period of rapid growth in the I.T. industry. During that time we saw rapid expansion of SYSteam by means of acquisitions. SYSteam acquired companies throughout Scandinavia, but mostly in Swedish and Finnish market. “We bought companies in towns where we didn’t have offices, and we shall pursue this same strategy in the future. We have a lot of opportunities to capitalize upon in Sweden and Finland. We can buy a lot of companies” (Joakim Breidmer). This observation supports the views presented by Porter, (1980); Schmalensee, (1985); Aldrich and Fiol, (1994); Romanelli and Tushman, (1986), that external market forces plays an important role in the type of strategy a firm chooses.

According to Grant (1996, pg. 110) resource based view of the firm perceives the firm as “Unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize the value through the optimal development of existing resources and capabilities, while developing the firm resource base for the future.” Penrose profoundly stresses that new combination of resources is central to firm's growth, in her words, “The productive activities of such a firm are governed by what we shall call this in productive opportunity, which comprises all of the productive possibilities that its entrepreneur sees and can take advantage of.” A theory of the growth of the firm is essentially an examination of the changing productive opportunity of the firms (Pe-
In the case of SYSteam we observed that when it acquired a company in Stockholm, they acquired new knowledge and contacts and new customers. When we asked SYSteam what an acquisition really bring in SYSteam, we noted “sometimes a product, but mostly it is human (skills), local market knowledge, contacts and the customer (to sell more) we are interested in” (Joakim Breidmer). Therefore by doing acquisitions they strengthen, refresh and reconfigure new resources with existing one, for the future growth. This observation is validated by Penrose (1959), as we observed that the entrepreneurs found the potential opportunities in other regions and exploited them by acquisitions. The sources needed for initial expansion via acquisitions were generated internally by SYSteam.

The interplay between organic growth and growth via acquisition has been addressed mainly through the resource based view. These two growth modes address the question that how the scope of a firm’s resources can be enhanced over time (Achtenhagen et. al 2007). It is the heterogeneity of the productive service available or potentially available from its resources that gives each firm a unique character, Penrose argues (1959, pg. 75). A firm can achieve rent not because it possesses better or efficient resources, but it is a firm's distinctive competence if it can make better use of its available resources. According to Wernerfelt (1984), fundamentally it is the resources of the firm, which limits the level of profits, it may expect and the choice of markets it may enter. SYSteam’s expansion into Stockholm market via acquisition also had a resource perspective. When we asked why they not expanded by internal growth, he replied

“It would have taken too much time and managerial resources, so it is better to buy instead of developing from a start, as it takes too much time in developing new market oriented skills, competencies and customers contacts, so we used our resources in a very efficient way (laughing)... And if you don’t have enough time and you want to grow faster than it is best way to pursue acquisitions. You can take advantage of your competitors in a very short time and grasp a larger market share” (Joakim Breidmer).

We can also see expansion by acquisition in response to limitation of internal growth in exploiting new markets. As Penrose (1995) proposed that that there are three overwhelming factors which could limit the organic growth of the firm, managerial ability, products and markets (external factor) and the uncertainty and risk as combination of both external and internal factors. We can see in SYSteam’s case that the company was not able to exploit new opportunities by organic growth, as it is evident from Joakim Breidmer’s statement.

Penrose stated that, there are two methods always open to an individual firm, first is that a firm can build a new plant and create new markets for itself or second is that it can acquire a plant and markets of already existing firm. Here we found that SYSteam followed the later choice. Therefore our observations are substantiated by Wernerfelt (1984) and Penrose (1959). After the first successful acquisition, SYSteam continued to pursue acquisitions as a mode of growth. This is exactly what Singh et al. (2005), argued that a company’s experience in managing acquisition is bound to influence its
choices and company habitually deploy acquisitions to increase sales. During the period from 1988-2009, SYSteam made more than 70 acquisitions. When we asked, is there any specific reason to expand by acquisitions, we noted

“O yes! Various reasons, for example to expand product range, market share, to buy new customers (to sell existing offers to) are very important reason to do acquisitions” (Joakim Breidmer).

There are many other factors or motives which forced SYSteam to pursue acquisitions, like growth, diversification and synergy (Öberg et al. 2004). As we noted

“Growth is very important to us and we want to grow and we have very ambitious plans for the future... We shall grow both by 50/50 organic and inorganic... To grow, but to make profit under the growth tree” (Joakim Breidmer). This is validated by Wiklund and Shepherd (2003) that firms exit to grow and seize any possibility to grow. In this case, SYSteam seized any opportunity to grow mostly by acquisitions, as evident from their record, they acquired 1000 employees out of 1200 (Joakim Breidmer). Jan Pettersson explained that SYSteam does have an ambitious growth strategy, but he later clarified that SYSteam will never grow so fast that they would risk losing money. This implies that SYSteam errs on the side of caution to some extent, as they only acquire companies which fit the precise criteria, and have been presented well in the business plan. They do not acquire at a very high rate or upon high risk firms, which would present a substantial risk to the company’s overall success.

Davidsson et al (2005) explain that growth is often a discontinuous process in SMEs. This proved not to apply in SYSteam’s case as they have achieved continual growth since inception. SYSteam normally measure their growth in terms of revenues, but they also consider the number of the people they employ, “we only buy people, which are our main assets” (Joakim Breidmer). According to Tushman et al. (1996) there is need of balance between exploration and exploitation, and this balance can be achieved by acquisitions (Salvato et al. 2007). We found this to be particularly apparent in the case of SYSteam, as we noted,

“We shall grow by 50/50 internal growth and by acquisition” (Joakim Breidmer).

6.2 Research question 2: How does SYSteam AB capitalize upon acquisitions in relation to achieving synergy and capability transfer among newly acquired firms?

Acquisition and organic growth are two pillars of growth strategy (Dyer et al. 2004). Acquisition provides an opportunity to trade non-marketable resources and to sell and buy resources in bundles. An acquisition can be seen as purchase of bundle of resources in a highly imperfect market. By basing the purchase on rare resources one can ceteris paribus maximize this imperfection (Wernerfelt, 1984). Resource and knowledge based view of the firm implies that the use of employment as a measure of growth. If the firms are viewed as bundles of resources, then growth analyses tend to be focused upon employees as the accumulation of resources (Penrose, 1959). In the case of SYSteam we noted, “we only buy people... Sometimes it is a product but mostly it is the human (skills) and new customer contacts” (Joakim Breidmer). We observed that by buying
companies (employees) SYSteam broaden its resources and customer base. When SYSteam acquires a new company it puts it horizontally with other subsidiaries, and leave them very much autonomous. “We issue very few directives from the top, but very often issue policy and guidelines” (Jan Pettersson). We take our strength from our subsidiaries (more than 70 operational), which we have acquired over a period of time. Whenever we acquire a new company we always integrate them horizontally (with a few exceptions).

In order to transfer knowledge and know-how, SYSteam developed a network for communication between exiting subsidiaries and newly acquired one (Jan Petterson). The theme generated by these findings is in line with that of Barney, (1986); Grant, (1996); Wiklund & Shepherd, (2003); Zahra et al. (2007). Barney (1986) argued that the resource-based view of the firm recognizes the transferability of organizational resources and capabilities as an important determinant of their capacity to have sustainable competitive advantage over the rivals. According to Grant (1996), the issue of transferability is important regarding to knowledge between the firms. Knowledge is usually embodied in technical, human and relational resources a firm possesses and these resources can influence firm expansion, especially growth rates and sales (Zahra et al. 2007). This stands affirm in the case of SYSteam.

SYSteam achieved growth by acquiring firms and bringing them under one large umbrella of SYSteam, now SYSteam stands on 100 horizontally integrated autonomous firms. According to Singh and Montgomery, (1987); Haspeslagh and Jemision, (1991), the potential benefits of acquisitions are related to value capture and value creation during the whole acquisition process. According to Salvato et al. (2007), value captures is one time phenomenon or event that results from the features inherent in the transaction itself, for example tax benefits and assets stripping. Whereas value creation is a long-term phenomenon which results from interactions between firms involved, and entrepreneurial or managerial actions. To nurture value creation in an acquisition process there has to be a competitive atmosphere which encourages capability transfer process (Haspeslagh & Jemison, 1991). Value creation embodies the transfer of and recombining of capabilities between two firms, which is commonly referred as Synergy. Potential synergies are the main reason for acquiring other firm (Salvato et al. 2007). Combining resources could generate synergies; a firm brings on the table before the deal closes (Dyer et al. 2004).

For SYSteam we noted, “Cross selling is our biggest synergy we aim for…we bring a very large customer base and they (potential target company for acquisition) bring a customer base, we try to exploit this as much as possible... this is on the basis that they come with good knowledge and product, paralleled with strong I.T. support. If this is case we offer them customer base of 4000 to sell” (Jan Pettersson).

Companies habitually deploy acquisitions to cut cost and increase sale (Dyer et al. 2004). This holds true for SYSteam. By doing this SYSteam achieve reciprocal synergy (Singh et al. 2005). Firms also look for other synergies as well, like financial, operational, cultural and managerial synergies. We noted for SYSteam,
“We mostly buy those companies with Price/Earnings ratio of 4-7% today” (Jan Pettersson).

This is also validated by Trautwein (1990), that acquisitions provide more predictable returns. We have around 100 CEOs, which are always ready to add more to SYSteam. Our main assets are our 100 CEOs, SYSteam leaders, coaches and employees (Jan Pettersson). Acquisition provides operational synergies, operational synergy arises when two separate business units are combined or knowledge is shared relating to operations. When SYSteam buy a company, they put them horizontally with other subsidiaries. Initially they send coach for purpose of cultural integration and use SYSteam network to share knowledge, skills and capabilities across all the daughter companies (Jan Pettersson).

In case of SYSteam they achieve reciprocal synergy as described by Singh et al. (2005), firms generate reciprocal synergy by executing tasks through an iterative knowledge sharing process and working closely. Firms not only have to combine resources but they have to customize them in a great deal to make them reciprocally interdependent. In this way SYSteam creates a virtuous cycle of value creation among its daughter companies, which synchronize themselves with each other and provide superior business value to their customers (Jan Pettersson). Our observations support our theoretical framework.

Acquisition provides operational synergies which allows firm to gain access to new market and to the current products which are new to the firm (Trautwein, 1990). Jan Pettersson explained that there were three distinct strategic competences which they looked for in a company when considering acquisition. These are business knowledge, I.T. competence and the ability to drive change in an organization. SYSteam looks to acquire companies who can provide in all three areas (see figure 11).

In case of SYSteam we observed, “when our customers grow, it also pressures us to ensure our superior business value we provide to customers. Therefore we also buy those firms we think by having them; we will be serving our customer in a better way. We re-

![Diagram](image-url)
recently bought a company in India, because our customer had operations there, we always want to close to our customers. Acquisitions really helped us in this way” (Joakim Breidmer & Jan Pettersson). The theme generated by our findings is in line with arguments of Dyer et al. (2004) and Trautwein (1990).

Companies should avoid buying in case of high business uncertainty and it is good idea to avoid acquisitions when companies want to generate synergies by combining human resources (Singh et al. 2005). Contrary to this we observed that SYSteam continued to buy other firms when dotcom bubble busted in early 2000s (Jan Pettersson). As we noted for SYSteam that “We only buy people” (Joakim Breidmer), they achieve synergy by combining, transferring and reconfiguring human resources for continuous growth. SYSteam has been very successful in integrating newly acquired people and firms. We noted, “We have very good history of it (laughing) actually we acquire people from 1 employee to 130 employees. Average size is about 15-20 employees and turnover is about 15-20 million SEK, for example Cantalope AB in Transas with one employee was acquired, see (laughing) we only buy people” (Joakim Breidmer).

6.3 Research question 3: What is the impact of acquisitions upon entrepreneurial orientation and emergence of acquisition capabilities within SYSteam AB?

Acquisition can be a way to release entrepreneurial activities in a firm, and growth via acquisitions may generate entrepreneurial benefits over the long run. This may not be present in green field establishment or in organic growth. Acquisition may also revitalize a firm and improve its ability to anticipate and to react to changing external business conditions (Salvato et al. 2007). They also contend that these positive outcomes will only accrue to acquiring organization, when acquisition growth is coupled with the development of acquisition capability, i.e. with accumulation, storage and exploitation of fresh organizational knowledge. By carefully administrating the controlled shocks induced to firm by acquisition, insightful entrepreneurs can regenerate a new wave of growth (Salvato et al. 2007). SYSteam insisted that one thing they always do whenever acquiring a new company was to change the board immediately. However they also provide coaches to the companies so that the transition phase goes smoother. This supports Salvato et al. (2007) observations.

According to Kogut and Zander (1992), passing of time gradually reduces the variety in a firm's knowledge resource base and the capabilities it needs for future survival and growth. According to Salvato et al. (2007), acquisition may be a good strategic response to ossification, simplicity and resource maturity. We noted for SYSteam, “…new employees, new leaders, new customers, new product and so on…this is what we get, when we buy a company. Yes! It does, indeed acquisitions enforced entrepreneurial activities in SYSteam. We have very strong history of very successful spinoffs of new business entities outside of SYSteam, as newborn independent firms. Our hundred CEOs of daughter companies are always open to new ideas, so it is kind of vir-
tuous cycle” (Joakim Breidmer). Now we have more strong entrepreneurial orientation in SYSteam as compared to earlier days of SYSteam, this is one thing we feel proud... We are still carrying the strong entrepreneurial spirit” (Jan Pettersson). These observations are in coherence with Kogut & Zander, (1992); Salvato et al. (2007).

According to Salvato et al. (2007) acquiring companies learn from their experiences. They also observed that companies which are involved in more than one acquisition gradually develops organizational tools that allow companies to achieve and accumulate acquisition knowledge or organizational knowledge. Companies use such practice and managerial tools to gradually organize knowledge on the underlying cause of failure and success they experience, commonly referred to as *know why* or the operational means, which can ensure success in acquisition, more clearly *know how*.

We found with SYSteam that organizational tools had been developed in the form of manuals/models regarding acquisition procedure for small and large firms, and how to integrate. These documents are a point of reference for each acquisition case and are the result of SYSteam’s internal acquisition experiences. Our findings that SYSteam developed their due diligence process as a result of insufficient analysis, also supports Wiklund’s findings.

“When we first started to do acquisitions we didn’t take into account, financial, cultural or legal factors into the due diligence process. We only concentrated on the buying process. Now we have a process, we are much better at integrating them into SYSteam” (Joakim Breidmer).

The introduction of the specialized acquisitions unit also lends support to the notion that acquiring companies learn from their experience. Joakim Breidmer stated, When we started with the separate unit of acquisitions, we became much better off, which infers that they realized the potential benefits for establishing such a unit.

People tend to leave when bigger firm absorbs small companies, and people often walk out the door after acquisition, (Singh et al. 2005). We observed for SYSteam, “Yeah! some people left but not so many” (Joakim Breidmer). SYSteam’s two part payment process was developed in order to counteract the tendency for people leaving the firm soon after being acquired. SYSteam emphasized that it was the personnel of a company that they are interested in when they acquire a firm, so they have adapted their payment process in order to minimize the risk of losing the personnel. This is another finding which supports Salvato et al. (2007) observations.

We observed that in case of SYSteam they developed internally all necessary resources, from its first acquisition to till today, except for some legal matters they hire lawyers (Joakim Breidmer). No one in the top management had a prior experience of acquisitions before joining SYSteam, except Kenneth. “We all learn during our acquisition process” (Joakim Breidmer). Here our findings are contrary to what Salvato et al. (2007) found regarding SMEs that SMEs tend to hire people having acquisitions’ experience. During the course of acquisitions history, SYSteam developed internal business
plan, integration plan, due diligence information request lists, acquisition specific language, which they consult when they have new object in discussion (Joakim Breidmer & Jan Peterson).

SYSteam always has 10-15 companies on our list, and they acquire from 1-2 potential companies out of 10-15. This has been the result of the evolution of their growth strategy. SYSteam evaluate each acquisition and present it to the board, which serves as a continual development process. There are other processes along with the knowledge accumulated by carrying out acquisitions and integration process, such as the internalization of lesson learned, Salvato et al. (2007).

“In order to make sure SYSteam learn from the failures and the successes, the acquisition unit always follows up every acquisition three years after and presents to the board” (Joakim Breidmer). SYSteam have adopted a practice so that every case, be it failure or success, are reported to the board. This supports Salvato et al. (2007) observations that lessons are internalized.

6.4 Research question 1: What were the factors which led Sigma AB to pursue acquisition?

In our theoretical framework we described many factors affecting the growth of the firm. These were entrepreneur growth orientation, adequate firm resources and existence of market opportunities (Pasanen, 2007). Some other authors also emphasize on the entrepreneurs’ growth orientation. SMEs growth may be the consequence of the strategic choices of entrepreneurs (Hambrick and Mason, 1984). Entrepreneurial orientation is an effective measure of resource utilization, and the entrepreneurial judgment of the managers is a prerequisite for growth (McKelvie et al. 2006). According to Murray (1984, pg. 9) founders “set very powerful rules concerning the proper and acceptable strategic moves.” Consequently this may limit the future strategic choices of managers. In the case of Sigma AB we also observed that the founder played a key role in the current position of the firm. It was his ambition to create something larger as we noticed,

“Sigma started as SAPA consult some years earlier by the entrepreneur Dan Olofsson, focusing on engineering services. In 1996 he decided to create a larger group and to list it. He then started to buy some relatively small business in the I.T. sector, which then formed the platform for Sigma today. It was a view of creating something greater and to broaden it to other sectors as I.T. which was a good timing, Dan Olofsson who founded Sigma is chairman of Sigma and majority owner with some 30% of the capital. As chairman he is involved on a strategic level” (Lars Sundqvist).

Sigma made its first acquisition in 1996, the same year Dan decided to enter into the I.T. sector. This I.T. part developed from scratch in 1996 through two smaller acquisitions. The theme generated by our findings are in line with Gibb and Davies, (1990); Pasanen, (2007), that the behavior of entrepreneurs strongly affects the intentions of the firm, and therefore the strategic behavior and subsequent growth is understandable in the light of its growth pattern. According to Smallborne et al. (1993) high growth can be
achieved by a firm with variety of age, size and sector characteristics and one of the important factors is the commitment of the leader to achieving growth. This holds true in our findings regarding Sigma’s leader. This is also validated by Wiklund and Shepherd (2003a), that entrepreneurial ability plays an important role in the growth of the small firm.

According to Bowman (1974) strategy can be viewed as continuous search for rent. Industry factors have a very significant impact on both the level of growth and the firm’s profitability (Porter, 1980; Schmalensee, 1985). According to Aldrich and Fiol (1994); Romanelli and Tushman (1986), organizations are constrained by the external environment they operate in and consequently organizational growth can be explained in terms of these environmental forces. Some researchers suggest that the period of high demand conditions such as industry maturity, industry growth, increase the chances of a firm’s survival (Gorman, 2001). Gorman (2001) argues that managers have to make two choices, first where to compete and followed by this how to compete. In our empirical findings we observed that the Sigma bought company in 1996 in Denmark, Lars Sundqvist explained the following reason,

“That was in the internet hype era when the company just wanted to grow. But also at the same time, Sigma emanates from Skåne so it was natural to grow abroad starting in Denmark. After the first acquisition and the listing, the hype started and the newly listed Sigma rose on the stock exchange. Acquiring business through issuing new shares was a cheap and effective way of growing and since Sigma was so high valued, the objects became cheap” (Lars Sundqvist).

Our findings substantiate the theories proposed by Porter, (1980); Schmalensee, (1985); Aldrich and Fiol, (1994); Romanelli and Tushman, (1986), that external market forces plays an important role in the type of strategy a firm chooses.

According to Grant (1996, pg. 110) resource based view of the firm perceives the firm as, “unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize the value through the optimal development of existing resources and capabilities, while developing the firm resource base for the future”. Penrose profoundly stresses that new combination of resources is central to firm's growth, in her words, “the productive activities of such a firm are governed by what we shall call this in productive opportunity, which comprises all of the productive possibilities that its entrepreneur sees and can take advantage of. The theory of the growth of the firm is essentially an examination of the changing productive opportunities of the firm.” (Penrose, 1959, pg. 31). In the case of Sigma, we observed that when it acquired companies, they acquired new knowledge and contacts and new customers. When we asked Lars Sundqvist what an acquisition really bring in Sigma when they acquired companies across different regions, he replied,

“In some cases it brings new ideas, knowledge and competencies… Therefore by doing acquisitions they strengthen, refresh and reconfigure new resources with existing one, for the future growth...” (Lars Sundqvist).
Therefore by pursuing acquisitions they strengthen, refresh and reconfigure new resources with existing ones, for the future growth. This observation is validated by Penrose (1959), as we observed that the entrepreneurs found the potential opportunities in other regions and exploited them by acquisitions. According to Penrose (1995), the growth of the firm in the long run is limited by its internal managerial resources. Manager is both the brake and accelerator for the growth process (Starbucks, 1965). Morse calls this managerial constraint on the firm growth rate as Penrose effect. In case of Sigma we observed.

"... We have had enough resources for acquisitions, when we needed we developed (managerial skills) internally..." (Lars Sundqvist).

The interplay between organic growth and growth via acquisition has been addressed mainly through the resource based view. These two growth modes address the question that how the scope of a firm’s resources can be enhanced over time (Achtenhagen et. al 2007). “It is the heterogeneity of the productive service available or potentially available from its resources that gives each firm a unique character”, Penrose argues (1959, pg. 75). A firm can achieve rent not because it possesses better or efficient resources, but it is a firm’s distinctive competence if it can make better use of its available resources. According to Wernerfelt (1984), fundamentally it is the resources of the firm, which limits the level of profits, it may expect and the choice of markets it may enter. In case of Sigma we observed that in order to full fill demand of financial resource, Dan made a very important strategic decision and the company was listed on stock exchange. Listing of the company created a flow of resources which enabled him to accomplish his vision of creating a large sigma group. This finding substantiates Covin and Slevin, (1997); Sexton and Bowman, (1991) that to expand her business SME manager must have the ability to secure complementary resources needed for growth. Consequently these resources helped in developing organizational growth capability.

We can also see expansion by acquisitions is in response to limitations of internal growth in exploiting new markets. We observed in Sigma case that the company was not able to exploit new opportunities by organic growth, as it is evident from Lars Sundqvist statement.

"...Some goals can be achieved both organic growth and by acquisition, but it is easier to achieve them by acquisitions e.g. new market entry...and we are achieving our goals on this principle...Organic growth is one small step a day, acquisitions are more done in leaps...we have grown by doing more than 50 acquisitions” (Lars Sundqvist).

These findings are in coherence with what Penrose (1995) proposed. There are many other factors or motives which forced SYSteam to pursue acquisitions, like growth, diversification and synergy (Öberg et al. 2004). In case of Sigma we found that in the 1990s it was more like to grow and grow. But later on there was a kind of shift in the focus of Sigma acquisition strategy we noticed,
“Acquisitions today are different from 10 years ago. Today they must match to existing business and/or customers. Not only for the sake of growth. Too much cost involved in growing by expanding the business into other areas. We talk about, dig where we are” (Lars Sundqvist).

According to Tushman et al. (1996) there is need of balance between exploration and exploitation, and this balance can be achieved by acquisitions (Salvato et al. 2007). We found this to be particularly apparent in the case of Sigma, as we noted, “It is strategy for 2010 to grow both organically and by acquisitions. More like 50/50” (Lars Sundqvist).

6.5 Research question 2: How does Sigma AB capitalize upon acquisitions in relation to achieving synergy and capability transfer among newly acquired firms?

Acquisition and organic growth are two pillars of growth strategy (Dyer et al. 2004). Acquisition provides an opportunity to trade non-marketable resources and to sell and buy resources in bundles. An acquisition can be seen as purchase of bundle of resources in a highly imperfect market. By basing the purchase on rare resources one can ceteris paribus maximize this imperfection (Wernerfelt, 1984). Resource and knowledge based view of the firm implies that the use of employment as a measure of growth. If the firms are viewed as bundles of resources, then growth analyses tend to be focused upon employees as the accumulation of resources (Penrose, 1959). In the case of Sigma we noted, “We don’t buy heads, we buy customer relations, processes and know how, basically this is what we pay for (good will)... and internally we measure growth in terms of revenues and employees” (Lars Sundqvist). The theme generated by our findings substantiates Penrose, (1959); Wernerfelt, (1984); Dyer et al. (2004).

Companies habitually deploy acquisitions to cut cost and increase sale and most importantly stock price (Dyer et al. 2004). This holds true in the initial statement of Lars Sundqvist that we were buying company during the hype, and this help to issue more shares and valued our stock. According to Anslinger and Copeland (1996) acquisitions are regarded as the growth strategy of very large organizations. In regard to Sigma we found that it was first deployed when Sigma was very small firm. Sigma crossed the barrier of 250 employees (SME) in the same year 1996, by buying five companies. This finding therefore contests Anslinger and Copelands (1996) statement. Acquiring company could integrate acquired one either horizontally or vertically, and this could be synergistic or non synergistic (Pasanen, 2007) when we asked what do you acquire when Sigma buy a company and how it does integrate Lars Sundqvist replied, “It is different from object to object. In most cases it is know how, other volume in terms of employees or we strength our position with specific customer or market...It is depending on what it is. Two cases are never like other ...we have done everything in response to integration...one can imagine about an acquisition (laughing)...”

This is validated by Wernerfelt (1984) strategic positioning of firm resources creates an
invisible barrier for rivals or new entrants.

According to Cartwright and Copper (1993), the effectiveness of acquisition is dependent on the ability of the managers to integrate the two firms and achieve synergy during the process. When we asked how Sigma achieve synergy Lars Sundqvist replied, “By integrating the best way one must always do something not just let the acquired company be, and then there will be no synergy. To have a change one need to do something different tomorrow than of today. In most cases we integrate the newly acquired companies with our existing subsidiaries, and then we use internal policies, guidelines and network to share and reconfigure existing knowledge with fresh acquired one... This is how it works (smiling)...”

By doing this they achieve reciprocal synergy, which supports Cartwright and Cooper (1993) and Singh et al. (2005) observations that firms generate reciprocal synergy by executing tasks through an iterative knowledge sharing process and working closely. Firms not only have to combine resources but they have to customize them in a great deal to make them reciprocally interdependent.

6.6 Research question 3: What is the impact of acquisitions upon entrepreneurial orientation and emergence of acquisition capabilities within Sigma AB?

Acquisition can be a way to release entrepreneurial activities in a firm, and acquisition growth may generate entrepreneurial benefits over the long run. This may not be present in green field establishment or in organic growth. Acquisition may also revitalize a firm and improve its ability to anticipate and to react to changing external business conditions (Salvato et al. 2007). They also contend that these positive outcomes will only accrue to acquiring organization, when acquisition growth is coupled with the development of acquisition capability, i.e. with accumulation, storage and exploitation of fresh organizational knowledge. According to Lars Sundqvist, Sigma holds the view that acquisitions has developed entrepreneurial initiatives and has contributed in providing new ideas and knowledge and competencies.

Davidsson et al. (2005) explains that growth is often a discontinuous process in SMEs. They further explain growth triggers such as change in leadership, a change in the composition of the management and/or a sharp external shock such as loss of a major customer can result in a reassessment of the nature and pace of firm’ development by its managers. Our findings support this as Sigma has experienced discontinuous growth as a result of sharp external shocks i.e. the downturn of 2002. Furthermore Lars Sundqvist explained that this caused Sigma to adopt a new principle concerning acquisitions, which was that acquisitions must match to existing businesses and/or customers. Furthermore, in most cases Sigma change board members of the acquired company to streamline integration process.

According to Salvato et al. (2007) acquiring companies learn from their experiences.
They also observed that companies which are involved in more than one acquisition, gradually develops organizational tools that allow companies to achieve and accumulate acquisition knowledge or organizational knowledge. Companies use such practice and managerial tools to gradually organize knowledge on the underlying cause of failure and success they experience, commonly referred to as know why or the operational means, which can ensure success in acquisition, more clearly know how.

We found that Sigma do not use internal documents as standard practice in relation to acquisition procedure or integration. Lars Sundqvist said that they will sometimes refer to old case material, but have never formulated models as such. The reason for this is that Sigma holds the view that every acquisition is unique and no such model can be applied. In relation to Salvato et al. (2007) first observation that acquiring companies learn from their experiences, our findings do support this as Lars Sundqvist stated that they do have knowledge of how to acquire. Furthermore Lars Sundqvist attributed their ability to absorb companies into Sigma was part of their culture and as a result of learning from experience. However Salvato et al. (2007) observations that companies use practice and managerial tools does not apply to our findings as Sigma has no such internal models, manuals etc.

Sigma does not benchmark or learn from other companies acquisition performance, this opposes Salvato et al. (2007) findings that managers spontaneously compared the decisional paths applied by their companies with those of their competitors. People tend to leave when bigger firm absorbs small companies, and people often walk out the door after acquisition (Singh et al 2005). Sigma has had experience of employees leaving once a company is acquired. Lars Sundqvist attributed culture as the main cause of this, and so explained that they now target companies of a specific size so that culture does not become such an influential issue. This supports Singh et al. (2005) and Salvato et al. (2007) findings that acquiring companies learn from their experiences.

In the case of Sigma we found that they do use external consultants/specialists, but they don’t hire managers specifically for the acquisition process. Therefore our findings both support and oppose Salvato et al. (2007) findings. We can infer from this statement that demand for the external assistance really depends on the needs of the challenge in hand.

### 6.7 Comparison of SYSteam AB and Sigma AB

Both firms pursued acquisitions with the intention of creating something greater, growth was always at the forefront of each of the founders mind. SYSteam made their first acquisition four years after their inception whereas Sigma acquired their first company in the same year that they were set up as the I.T. part of the former Sigma. SYSteam’s first acquisition was with a company in Stockholm, the motivation behind this being to follow their key customer and gain access to the largest market in Sweden. Sigma made their first acquisition with a company in Denmark, the motivation behind this was to simply grow and as they originated from Skane it was natural to acquire in Denmark. It
can be viewed that SYSteam were forced to acquire in Stockholm to keep close proximity to their key customer, whereas Sigma AB chose to pursue acquisitions simply for the sake of growth.

We can also observe that Sigma’s expansion was too rapid, and was for the wrong reasons. Lars Sundqvist stated that they were growing for the sake of growth; Sigma’s policy now is that today acquisitions must match to existing businesses and/or customers.

“Growth for the sake of growth is the ideology of the cancer cell” (Edward Abbey, The journey home, 1977).

During SYSteam’s history they have experienced continuous growth, whereas Sigma has experienced discontinuous growth (see graph).

![Figure 10: Comparison of SYSteam and Sigma’s growth pattern](SYSteam Annual report 2008, Personal communication with Lars Sundqvist).

Although the two companies have experienced very different patterns of growth they still place the same level of importance upon organic and inorganic growth. Furthermore both companies claim intentions to pursue a 50/50 strategy. We find this to be quite interesting as we have collected substantial data to suggest both companies rely heavily upon acquisitions. Out of SYSteam’s 1200 employees, 1000 of those have been acquired. Out of their total revenue of 1800 million kroner, acquisitions accounted for 1300 million kroner. In the case of Sigma, more than 70% of their revenue had been generated by acquisitions.

Both companies use revenue and employees as the main growth measures. However our findings imply that SYSteam places greater emphasis upon employees, which could be because of the direct link between the two variables. Joakim Breidmer explained that each employee is expected to generate approximately one million kroner. When SYSteam integrate a subsidiary, they position them horizontally in order to maintain the
strength of the company. When Sigma integrates a subsidiary they do either horizontal or vertical integration based upon the company.

In terms of resource generation the founders of SYSteam developed all necessary resources for acquisitions internally, whereas the founder of Sigma generated financial resources by listing Sigma on the stock exchange. When it comes to targeting companies for acquisition, Sigma target companies of 40 to 150 employees due to cultural issues, whereas SYSteam have a much span in terms of employees, but they set criteria on the basis of acquiring companies who excel in three strategic competences (see figure 10). During the negotiations process SYSteam place great importance upon the key customers of a targeted firm, due to cross selling potential, whereas Sigma place little importance on this issue.

Both companies achieve reciprocal synergy by sharing resources and knowledge with each other. Both SYSteam and Sigma expressed the view that acquisitions brought and strengthen entrepreneurial culture within their company. They both saw it as having contributed to providing new ideas, knowledge and competencies.

When it comes to pursuing customers and entering new markets, SYSteam and Sigma present two very different strategies. SYSteam continuously performs research upon different industries and markets into which they can enter to find new sources of revenues and customers. Sigma stated that they only enter into new markets to follow an existing customer. Lars Sundqvist referred to their concept of *dig where we are*, whereas SYSteam’s concept seems to be *produce a map and off we go*.

Both companies have experienced failures in past acquisitions and both claim to have learnt from this, a statement they were both able to illustrate. Their learning however goes down two very different paths. SYSteam take a very methodical approach to their knowledge of acquisitions and management. They have produced several documents pertaining to acquisitions which can be viewed as models which they apply to each case. Sigma takes on the view that each case is unique and whilst they may use some old material, they do not apply models or have any internal documents for acquisitions. However they maintain that they have knowhow of acquisitions within the company.

The production of internal documents by SYSteam could be due to the inclusion of a specific acquisitions unit, whereas in Sigma, top management is wholly responsible for acquisitions. SYSteam is also very active in learning from other companies about their acquisition process, as they systematically benchmark their competitors and read about larger corporations’ acquisition strategy. Sigma does neither. An explanation for this could be that Sigma hires external consultants and specialists to assist in the acquisition phase, whereas SYSteam only use external consultants in areas such as law and accounting, and only when necessary.

SYSteam has it as procedure for the acquisitions unit to report to the board for every single acquisition case, whether it is a success or failure. Sigma on the other hand only
report for the larger cases, and hold the view that assessing the effects brought about by synergies is more or less impossible, especially once integration has taken place.

We find this contrast in approaches to evaluation and learning very intriguing as both companies report very few failures in acquisitions. Sigma claimed that very rarely have they failed when the negotiations come as far price and negotiations, and SYSteam too claim that they have had very few failures especially since the set up of the specific unit. Most acquisition and alliances fail. "Unlike wines an acquisition does not get better over time" (Singh et al. 2005, pg. 89).

The above statement seems not to apply to SYSteam and Sigma; both companies have achieved relative success and have improved their acquisitions’ competence during the course of their history. Both companies state they will continue to pursue an intensive acquisition strategy in their future.

“We will grow through both acquisitions as well as organically” (Sigma, Lars Sundqvist).

“We grow every year. And we shall grow 50/50, 50 internal and 50 by acquisitions” (SYSteam, Joakim Breidmer & Jan Pettersson).
7 Conclusion

This part draws conclusions from the previous analysis part, summarizes the analysis of the research and gives answers to the general purpose of the study.

The purpose of this thesis was to:

...To study the acquisition growth strategy of two I.T. firms (SYSteam AB and Sigma AB) which have grown from SMEs to large firms by means of acquisitions.

In order to fulfill the purpose we formulated three research questions. After having analyzed the empirical findings in light of the theoretical framework it is possible to draw conclusions concerning the research questions and the purpose of the study. Our conclusions in relation to the research questions are as under;

What were the factors which led the companies to pursue acquisitions?

We identified several factors which led the companies to pursue acquisitions. The first factor which applied to both companies was the entrepreneurial nature of the founders. In both companies the founders played a key role in molding the growth strategy. Their vision and intentions for the company lit the path for future growth. Their role was so influential that for both cases the present day companies are still following the same strategy. Another factor was to gain access to potential markets in a shorter time frame, thus strengthening their position in the industry. We also identified the desire to access a new customer base, new knowledge, customer relations, new leaders, new skills, and new products in a more efficient and time saving approach. The internal development of the companies’ managerial resources also played a crucial role in their decision to pursue acquisitions. The limitations of organic growth were another key factor in why companies pursue acquisitions.

“Organic growth is one small step a day, acquisitions are done in leaps...some goals can be achieved by both ways. However, certain goals may be more easily achieved by acquisitions” (Lars Sundqvist, Sigma).

How do firms capitalize upon acquisitions in terms of achieving synergy and capability transfer among newly acquired firms?

Every company has its own process of capitalizing upon acquisitions, and the process of how they transfer capability also varies dependent upon individual cases. Companies enter into the acquisition process mainly to achieve synergies. Through pursuing an acquisition growth strategy companies are able to achieve financial, operational, cultural and managerial synergies. The main synergy spans over both financial and operational is cross selling. This is achieved through exploitation of the existing and newly acquired customer bases. We found in both cases that reciprocal synergies had been generated through knowledge sharing via internal networks and the placement of coaches inside of the newly acquired firms. The company enables the transfer of capabilities between the parent company and the
newly acquired, by successfully integrating them. Whether the newly acquired company is positioned horizontally or vertically is dependent upon the level of autonomy, the parent company assigns.

What is the impact of acquisitions on entrepreneurial orientation and emergence of acquisition capabilities?
We identified that the both companies view acquisitions as having a positive impact upon the entrepreneurial orientation of the firm. Both companies were of the opinion that acquisitions had contributed in providing new ideas, knowledge and competencies, thus having created a strong entrepreneurial culture within the firms. We also identified acquisitions as having revitalized the firms’ resources and improved their ability to anticipate and react to external business opportunities.
The companies have learnt from their experience of acquisitions, however each company had their own approach and procedures for managing acquisition related knowledge. We further identified that acquisition provided new resources which when reconfigured with existing resources triggered a chain reaction of future growth, i.e. “virtuous cycle”.

It is the opinion of the authors of this thesis that the research questions have been adequately addressed and therefore the purpose of this study has been fulfilled.

8 Discussion

This chapter discusses the limitations of the study as well as suggestions for further research

It is the authors’ opinion that time was a limiting factor in broadening the scope of our study. The availability of relevant literature also posed problems as the research within the field of SMEs’ acquisitions is limited. Furthermore there was very little literature available concerning how I.T. SMEs pursue acquisitions.
Due to the fact that our study was concerned with strategy it was necessary for the authors to gain access to top level management, which proved very difficult. The quantity of our empirical data was dependent upon the willingness of management, which in many cases was nonexistent.
It is the authors’ opinion that the findings of this study can be of use to practitioners in the Swedish I.T. SMEs sector who are interested in acquisitions.
Concerning future research, the authors believe that the knowledge produced in this study could be enhanced and made more applicable if a larger sample was acquired. An important point of departure from this is study is concerning the necessity to pursue growth. The authors believe that it would be of interest to conduct a research as to what would happen if companies did not pursue an acquisition growth strategy? Another potential study which the authors would find appropriate would be the ability to assess the value brought about by synergy during and post integration.
References:


http://www.sigma.se/en/


Appendices.

Appendix 1: Interview questions.

1. Who decides upon whether to acquire or not in the organization?
2. Any history of failures in acquiring firms?
3. Do you do evaluation of the failed acquisitions?
4. Have you developed an acquisition model?
5. Do you often hire external experts in the acquisition process?
6. Do you have any prior experience of acquisitions before coming to the company?
7. Do you learn from Multinational corporations?
8. Do you benchmark some companies?
9. How many acquisitions do you have planned at present?
10. How do you integrate knowledge of companies?
11. Has your company’s ability to react to niche opportunities in the market been affected by your growth?
12. What proportion of your customer base are key customers? And how influential are they?
13. Are you present outside of Scandinavia in Europe or Asia? Does the proximity to your customers matter?
14. What is your main driving force behind your acquisitions?
15. Which companies are your competitors?
16. Does buying companies promote internal growth and entrepreneurial activities?
17. Do your acquisitions bring about spin offs or new businesses under the company umbrella?
18. What was your strategy in your geographical expansion in Sweden?
19. Are you present outside of Scandinavia? What is your strategy for International expansion?
20. How do you keep balance between organic growth and acquisitions?
21. Do you change the top management team of the acquired company?
22. Did the lack of resources when you first started the company affect your ability to acquire companies? Or What is your current positions regarding necessary resources?

23. What are the key resources of your company?

24. Do some of your acquisitions impede your growth?

25. What advice would you give a company pursuing acquisitions as a form of growth.

26. What is your growth strategy?

27. How do you define your growth strategy?

28. How has your organization been growing over the time?

29. How do you measure your organizational growth? In terms of size of organization, employees or revenue?

30. How do you consider the role of top management or founders in main decisions concerning new areas of firm' expansion?

31. How many acquisitions has your organization undertaken so far?

32. What was the motivation behind this? to expand product range? to beat some competitors? to enhance services to your existing customers? market share? or expansion to other areas? or Niche approach? or new technology or technical knowhow that the parent firm lacks? or in related business?

33. How do you see the role of your customers in your decisions concerning acquisitions?

34. What were the size of the companies you acquired?

35. How do you integrate new firms? horizontal or vertical integration?

36. Do you hire external consultant for seeking advice for acquisitions?

37. Do you make any structural change(s) before pursuing acquisition?

38. To what extent do you integrate acquired firms? completely? partially? or let them be autonomous?

39. Do you have any special entity or group of people who are experts in Acquisition in your organization?

40. How do you measure Risk associated with Acquisition?
41. Any history of failure in Acquiring other firms?

42. Do you conduct post acquisitions studies?

43. Do you have internally developed specific language or model for acquisitions?

44. How do you see that Acquisitions brings new ideas, knowledge, competencies, and help in opening new entrepreneurial initiatives for the firms?

45. When you acquire some company, then what do you really acquire?

46. Do you think that past history of acquisitions enabled your organization to absorb other companies in near future?

47. Do you learn lesson on acquisition from large or multinational organizations?

48. Do you think that your organizations ability to respond to small market changes and seek niche opportunities has been affected by the acquisitions and resulting growth?

49. What practices have you implemented in order to ensure organizational responsiveness?

50. In brief how do you define your firm's acquisition competence?

51. In future any plan for further acquisitions or any acquisition under consideration?

52. Do you view acquisition or internal growth as two different ways of achieving the same growth goals?