

Sustainable Merger and Acquisition Transactions – Important Aspects as Part of a Process Model Especially for Enterprises in the Service Market

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Abstract

The recent years have seen worldwide an unprecedented wave of mergers and acquisitions. However empirical research studies show a high failure rate of implemented M&A transactions in enterprises in the service sector. The aim of the paper is to show important success factors for sustainable M&A transactions in enterprises in connection with a newly developed holistic concept for national and international M&A processes for the testing service market (TICET market) and for the service sector market in general. This important success factors are especially the developed and implemented risk management model and the innovation management. Furthermore the results of the developed holistic M&A process model will be analysed, measured and objectivised with the help of a case study, and management instruments will be highlighted. As part of the case study the results of M&A transactions carried out by TÜV NORD and by its main competitor TÜV SÜD were used.

Keywords: Sustainable M&A transaction, holistic M&A Model, Risk Management Model, Innovation Management, Competition Analysis, Benchmark Analysis.

1. Introduction

A lot of publications and studies show the enormous importance of Merger and Acquisition (M&A) transactions in the context of realising growth and profit targets and the accompanying value increase in an enterprise [2, 3]. Against this background the implementation of sustainable M&A transactions allow the assumption that M&A should be a very successful strategy for the development of enterprises. However, an analysis of the numerous available empirical research studies shows a high failure rate of implemented M&A transactions. For example, a study made by J.P. Morgan showed a failure rate in the implementation of mergers of approximately 40%; the failure rate of M&A transactions in the service sector was even higher, at around 50% [4, 5, 6].

In the relevant scientific literature most publications on the topic of M&A only present a rough and not detailed process structuring of M&A transactions and they vary from author to author. For example the authors Picot, Grill, Bauer, Düsterlho, Berens, Brauner, Strauch [7, 8, 9, 10] present only several parts of a holistic M&A process model. While other authors as Theurl, Tschöpel [11] show only rough structural concepts of M&A processes.

However, according to the intense research by the authors, no detailed and holistic concept exists which considers the special features of M&A processes in the testing service market and in the service sector market in general. In these circumstances the aim of the authors of the paper in the first step is to show the most important success factors innovation management and the risk management model as parts of a newly developed holistic concept for national and international M&A processes, especially for the testing service market (TICET market) and for the service sector market in general.

In the second step, the results of the developed holistic M&A process model will be analysed, measured and objectivised with the help of a case study, and management instruments will be highlighted.

As part of the case study the results of M&A transactions carried out by TÜV NORD (more than 10.000 employees) and by its main competitor in the business field – TÜV SÜD (more than 16.000 employees) – were used [12, 13]. Both enterprises are global leaders in the testing service market with comparable business activities and with more than 140 years of enterprise history. The testing service market has an estimated market volume of at least €40-50 billion.

2. Newly Developed Holistic National and International M&A Process Model

In this section, the most important aspects of the holistic M&A process model, which has been developed by the authors specifically for enterprises in the testing service market and also for the service market, is presented together with many success factors, by using the example of TÜV NORD in comparison with TÜV SÜD. The newly developed holistic national and international M&A process model consists of the following three phases, and is shown in the figure 1.

With the support of the authors, special attention is given in the following to both the newly developed and implemented the risk management model and the innovation management. These aspects will be shown in the paper and their means of implementation are especially necessary as parts of a successful sustainable acquisition processes.

2.1. Risk management model in connection with sustainable M&A transactions

In the last seven years, the TÜV NORD Group has made 28 acquisitions. 17 of the enterprises purchased are headquartered in Germany and 11 abroad. Due to the acquisitions, the number of employees has increased from more than 2,000 to more than 10,000. At the same time period the TÜV SÜD Group also has acquired 28 enterprises [14]. Against the background of new knowledge and experience gained in connection with the expansion of the TÜV NORD Group, the risk management is continuously developed and extended.

In order not to have to register unknown or unforeseen risks in the context of the integration of acquired enterprises, a risk analysis should be performed in the context of the acquisition process. However, risk analysis is different from operational risk management, in particular with regard to its project character and information basis (publicly available information and information provided by the target enterprise)[15]. Risk analysis should include the most important elements of risk management, i.e. risk identification and risk evaluation, and can be integrated into the due diligence process. A due diligence procedure also should be carried out for each acquisition. *{According to Section 11 of the US Securities Act of 1933, brokers reproached for having withheld important information from investors were able to relieve themselves from personal liability by the defence of due diligence. To do this, they had to prove, among other things, that as a consequence of an appropriate investigation they had reasonably believed that all information published had been true and no essential information had been omitted[16]}.*

The aim of due diligence has to be the identification of all risks of an enterprise and their subsequent minimisation or inclusion into the calculation of the enterprise value. In a due diligence process the enterprises can also cooperate with external advisors such as auditing and law firms to perform due diligence checks and risk analyses.

In the following, the authors will deal with issues of risk management or risk analysis in the acquisition processes which are of great importance for every enterprise. For this background to ensure a complete record of all important risks, it is necessary to adopt a systematic process to identify them, which was developed and implemented from the authors in the TÜV NORD Group in the last years to reduce the risks concerning acquisitions. For this the issues will be classified by external and internal influences on the enterprise (Figure 2).

With regard to the risk levels and risk fields established, all the relevant risks must be identified, measured and describe as precisely as possible.

- **External Influences on the Enterprise**

At the "global environment" risk level, in particular the issues of macroeconomic development, technological development and political-legal development are of very great importance for every enterprise and also to the TÜV NORD Group. Furthermore the issues of socio-cultural and ecological development are to consider.

Macroeconomic development in particular includes cyclical risks which find expression in the fluctuation of economic variables (e.g. gross domestic product) of a national economy and foreign currency and inflation risks [17].

To enable the assessment of such risks for a country in which an acquisition is planned publicly available information provided by financial or research institutions can be used. The country-specific risk potential is estimated on the basis of this data. In its assessment of the technological developments and the associated technological risks, the TÜV NORD Group usually relies on own Know-How which is supplemented by publicly available studies. Where own Know-How does not exist because the acquisition is made to set up a new business division, enterprises often cooperates with external advisors who prepare expert reports on the further technological development of the market in question. On this basis, the risk potential is estimated.

Political-legal risks identified by enterprises basically are the following (additional detailed explanations see [17]):

- Fiscal risks: Fiscal measures by governments may present a risk to enterprises.
- Transfer risks: Governments may make retransfer of invested capital, e.g. in the form of distribution of profits, difficult.
- Expropriation and terrorism risks
- Corruption risks: Regular publication of country rankings provides an overview which likewise is very important to enterprises due to the corporate governance and compliance obligations.
- Legal risks: These may be the lack of basic conditions for quality, liability and protection risks or the general jurisdiction.

In the context of an acquisition project, the political-legal risks are also determined, analysed, assessed and compiled. Central to the risk field socio-cultural developments are circumstances and changes in demographic features (e.g. age structure) or social values, attitudes and norms (e.g. attitudes to the environment). Ecological developments arising from the exploitation of finite resources or changed environmental and climatic conditions (e.g. environmental disasters) may represent risks for an enterprise.

At the "competitive environment" risk level, the competitors, suppliers and customers issues are often of great relevance to enterprises. Therefore, a detailed analysis of the competitor, supplier and customer situation in a country is performed in the context of the acquisition process. For instance, the general price, service and quality level of testing services, the possibility of new customers entering (entry barriers) or the customers' market power and payment behaviour are analysed in connection with this.

• **Internal Influences on the Enterprise**

At the "enterprise internal" risk level, all issues are very important always in the case of acquisitions which are why during an acquisition process a due diligence check including a risk analysis for the enterprises to be acquired is carried out jointly with local public accountants and lawyers.

With regard to this, risks may result from an enterprise's strategy/corporate governance, e.g. with respect to questions of composition of the service portfolio, choice of location enterprise investments.

Risks in connection with human resources or cultural aspects are of the highest importance for all service related enterprises because the business model is based on the provision of services by people, not machines. Accordingly, it is important for the management of enterprises to detect risks in connection with key persons (Know-How carriers) at enterprises to be acquired and reduce them by contractually binding these key persons to the enterprise at least for a certain time. Without such agreements which serve to reduce the risk potential, an acquisition should usually not be performed.

Jointly with public accountants, the management of enterprises look for financial risks or risks with regard to the assets of the enterprise to be acquired. These may in particular be found in various items of the balance sheet such as the intrinsic value of receivables from customers or fixed assets (e.g. values of buildings, machines, technical installations and the equipment of the IT system), pension plans or risks arising from under-insurance.

External lawyers can be involved in particular in the determination of organisation risks or business process or project risks. Risks may concern the operational and the organisational structure or exist in the business processes along the value-added chain. There also may be risks in an individual current or future project, environmental or quality management.

At the end of the acquisition process, all risks in connection with external and internal influences on the enterprise which have been identified have to be compiled and assessed.

Based on these reports, the board of management and if existing the supervisory board of enterprises have to decide whether or not the acquisition will be made. In this way, there should be a close interlocking between the enterprises risk management and the acquisition management already prior to an acquisition. In the next section especially the innovation management as part of the holistic national and international M&A process model is presented.

2.2. Innovation management under the consideration of sustainable M&A transactions

Innovation management is an important success concept for enterprises and often it is the basis for sustained economic growth. The rapid technological advances continually lead to new technological possibilities and problem solutions. New products result from this, and they are accompanied by new services. Other innovation drivers include regulations, laws or norms, which are introduced by the legislator and are then applied in the economy – and especially by the testing service market. Therefore enterprises should anchor the topic of innovation in their strategy and they should establish an innovation culture in their enterprise. It is important to see innovations from a holistic perspective and at all levels of the enterprise [18].

The term innovation literally means “renewal”, and it derives from the Latin terms “novus” and “innovation” – something newly created. The terms can refer to new kinds of products or services, processes, contract forms, sales channels, organisational structures, etc [19]. These few examples show how extensive the term innovation can be and how differently it can be defined. According to Müller-Prothmann, Dörr, and “Innovation only results from ideas when new products or services are implemented (invention) and when they are actually successful in their application and penetrate the market (Diffusion) [20]. The European Union has defined innovation as follows “the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of production, supply and distribution; the introduction of changes in management, work organisation, and the working conditions and skills of the workforce” [21]. The innovation management systematically supports and guides the entire innovation process from the generation of new ideas until their implementation in new products of services in the testing service market. The purpose is to strengthen and to improve the position of the enterprise in the market in the long run [20].

Both enterprises TÜV NORD and TÜV SÜD have several business fields within several business divisions (business fields are parts of business divisions). Within the business divisions the business fields are rather inhomogeneous. For example the business division for “Industry Services” includes the business field systems (e.g. testing of elevators and escalators), energy- and system technology (nuclear energy) and certifications. According to the author TÜV NORD uses the creativity and competency of its employees and supports an innovation-friendly enterprise culture with the help of special investments in further training programs and e.g. special bonus payments for innovation ideas to employees. Both in 2009 and 2010, €5.6 million was invested each year in internal and external training courses for employees [22]. The main focuses of innovations in TÜV NORD involve areas such as electro-mobility with various innovative projects, the use of innovative testing methods and renewable energies. According to this, the business divisions have the strategic and world-wide responsibility for innovation and organic growth.

During the business year 2010 the main points of the innovations of TÜV SÜD were: electro-mobility, safety systems, IT-safety and renewable energies [23].

Because of the existing organisation structure and the variety of products it is useful to establish a central innovation management, how generates new service performances in business fields and business divisions. The central innovation management is specifically responsible for the promotion of an innovation culture in the enterprise, for the identification of new innovation fields and for the coordination of activities, in order to generate innovation across the business divisions. In order to promote the innovation culture, a two-day company-internal innovation fair was organised [23]. Such a central organisation structure as add on in enterprises with different business divisions is of great importance because in general various business fields/divisions are almost not connected with each other. Furthermore the central innovation management has an important role in the context of identification and execution of sustainable M&A transactions.

Both TÜV NORD and TÜV SÜD have acquired numerous enterprises during the relevant period. These acquisitions enabled both enterprises to complement their service portfolios and access new markets in the form of new customer groups and regions.

With the contribution by the authors TÜV NORD succeeded through the acquisitions not only in expanding existing business fields with new services, but also in developing new business divisions. Through the acquisition of the new business field of raw materials, TÜV NORD managed to acquire numerous new services; one of these is the *mining service*.

This provided the possibility to interlock this new service (mining) with the existing service permanent disposal site from the field of nuclear energy – and to create a new service with a competitive advantage. Especially in light of the ongoing debate about nuclear energy and the phasing out of nuclear energy until 2022 and the accompanying search for suitable permanent disposal sites, such a new service offer appears promising. Without the acquisitions of enterprises, it would not have been possible for TÜV NORD to develop and offer this and other innovative services on the market, because the personnel and time resources and the necessary Know-How were missing. For this background especially for enterprises in the service sector it is of great importance to identify during the M&A Process the value creation and innovative potentials and the need to deal with the cultural aspects because the employees of an acquired enterprise are the actual value. This applies even more to cross border acquisitions, and therefore it is important to identify cultural differences at an early stage and then deal actively with them and promote mutual understanding.

In contrast to TÜV NORD TÜV SÜD has strengthened its business fields with new services and has completed existing services through acquisitions, but it has not developed new business divisions. TÜV SÜD has completed quite a number of acquisitions in America and in Asia, in order to benefit from the growth in these regions [23]. With these investments TÜV SÜD developed new customer groups, to whom it can offer its new services. Without these acquisitions TÜV SÜD would not have been able to internationalise its business activities within such a short time and with such a high turnover volume.

In the context of sustainable M&A transactions it is also possible to established new innovative processes and so called Shared-Service-Centres in order to pool support activities such as accounting, personnel management, procurement, and IT (this includes system optimisations) of various enterprises. This guarantees a standardised and efficient work flow within the group, while at the same time the services are cost effective due to their direct integration (within the group) and due to being pooled. In this context the activity of personnel management is very important because the business models in the service and testing service field are based on the performance of services by employees. This strategy of new innovative processes and organisation structures also of support activities within enterprises has assisted in the optimisation of costs, in achieving synergies and consequently in improving profits.

Some further organisational aspects have to be taken into consideration. The evaluation and assessment of all potential world-wide M&A possibilities (and therefore also the evaluation of the value creation / innovative potential and synergy of the M&A possibility) should be performed centrally by and under the responsibility of the M&A Team, which is a very important success factor (the author and his department is responsible for the evaluation of all potential M&A possibilities). Without the involvement of the M&A Team the submission of a purchasing price offer or the purchase of another corporation should not be possible. This prevents a possible “hunting instinct” during the acquisition process from the employees of the business field / business division who will later be responsible for the operational integration. In addition the risk of paying excessive purchasing prices as part of M&A transactions and the subsequent risk of future write-offs on the acquired enterprises or the capitalised Goodwill is reduced. For this background an M&A department should be installed and directly report to the CFO or CEO of the enterprise. During the implementations of M&A transactions in enterprises the M&A department should directly work together with the Finance and Legal Department. In addition, the M&A team can receive project-related support from employees of the respective business field / business division, which will be responsible for the operational integration of the acquired company. A comparable procedure was implemented at TÜV NORD with the support of the author of the paper and it has contributed to the success in the implementation of acquisitions.

Therefore it can also be stated by the authors of the paper that a stringent innovation management during the acquisition process contributes to the fulfilment of customers’ needs and helps to optimise costs, and thus can result in an increase in the enterprise’s results and profits. In conclusion a stringent innovation management is an important success factor for a sustainable acquisition policy.

3. Comparing sustainable Merger & Acquisition transactions by TÜV NORD and TÜV SÜD – Case Study

The authors developed specifically a benchmark analysis for that purpose in order to make value contributions of M&A transactions directly visible for enterprises, which will then allow the comparison of different M&A strategies. The benchmark analysis has been implemented by the authors over a specific period.

Against this background, the results of M&A transactions of TÜV NORD and its biggest competitor in the business field – namely, TÜV SÜD – are summarised, measured, analysed and objectivised with the help of the most important economic key performance indicators in the balance sheet, the income statement and profitability key performance indicators; and with the help of standard procedures, which are used for the evaluation of enterprises. Both enterprises are global leaders in the testing service market, they have similar product portfolios and enterprise histories, and therefore they are very suitable for comparison in this case study. Their comparison offers convincing research results and the results can be applied to third parties. The results of the analysis and benchmark of the economic key figures is presented in the Table 1.

In the initial situation TÜV NORD grew organically only by 1-2% per year before the strategic new positioning, while the increasing rate of the competition and especially the competitor TÜV SÜD was substantially stronger. TÜV NORD therefore faced the challenge to either grow inorganically through acquisitions, or to lose market shares every year in a consolidating testing service market.

In the initial situation it is presented through the authors that TÜV NORD accounts for lower economic key performance indicators in the consolidated balance sheet regarding the statement of financial position and the ratio of Goodwill to equity capital, and a higher reinsurance quota of the pension provisions, and no Goodwill. Regarding the economic key performance indicators of the consolidated profit and loss (income) statement – something that is historically conditioned – TÜV NORD ranks clearly behind TÜV SÜD. A similar picture is revealed regarding the profitability ratios.

As part of the analysis and benchmark of the economic key figures, TÜV NORD implemented during the relevant time period 28 majority participations in companies with a turnover volume of approx. €190 million or approx. €250 million (when considering the entire turnover of the companies acquired in 2010). During the same period TÜV SÜD acquired a comparable number of majority participations with a comparable turnover volume. TÜV NORD invested more than €15 million and TÜV SÜD more than €240 million for the implemented acquisitions. As an important effect of the acquisitions TÜV NORD capitalises Goodwill of €6.8 million in its consolidated balance sheet, and TÜV SÜD balances €135.6 million in the same position. During the relevant time period TÜV NORD did not have to write off any Goodwill, while TÜV SÜD had write-offs in the amount of €38.9 million due to a purchasing price that was too high and a lack of intrinsic value. Furthermore this shows also that the risk analysis model and other success factors, which were developed and implemented with the help of the authors in TÜV NORD as part of the holistic M&A process model, is performing proper.

Despite substantial investments into new companies, both TÜV NORD and TÜV SÜD continue to have a positive statement of financial position, which is available to the enterprises for operative investments, reinsurance of their pension provisions and acquisitions. In direct comparison with its competitor TÜV SÜD and other competitors, TÜV NORD still shows a very high reinsurance quota for the pension provisions; this reflects the special role of this key performance indicator for TÜV NORD and reflects its sense of social responsibility towards its employees. In light of the higher profitability, TÜV SÜD could increase its equity capital substantially when compared with TÜV NORD. In both enterprises the acquired enterprises have contributed significantly to that. Due to the acquisitions, the ratio between the Goodwill and the equity capital has increased (TÜV NORD: 48.7% and TÜV SÜD: 28.8% in 2010). This key performance indicator shows that write-offs on Goodwill – if such should become necessary in the future – can have strong effects on the equity capital of both enterprises.

As mentioned previously, through a change of strategy with the support of the authors, TÜV NORD succeeded in achieving almost the same increasing rates as its competitor TÜV SÜD, and thus hardly any market share was lost during the relevant time period. TÜV NORD had the higher increasing rate during the observed time period through M&A measures (32% points in comparison with 20% points for TÜV SÜD) while TÜV SÜD had the higher organic increasing rate (39% points in comparison to 22% for TÜV NORD). TÜV NORD also succeeded in increasing the result level, whereto the newly acquired corporations made their contribution. However, the level of results of TÜV SÜD has not been reached yet.

The same picture is revealed with regards to the profitability ratios, where again TÜV NORD succeeded in coming closer to the standard of TÜV SÜD. Regarding the key performance indicator return on investment, the level of TÜV SÜD was exceeded.

Without acquisitions the gap between TÜV NORD and its competitor TÜV SÜD and the gap to other competitors would have become considerably wider, regarding such key performance indicators as the consolidated profit and loss (income) statement and the profitability ratios.

Due to a sustained acquisition policy, the gap for most of the economic key performance indicators that have been studied could be reduced, and thus, TÜV NORD could successfully defend its market position.

The sustainable and careful acquisition policy of TÜV NORD is also shown in the fact that on average for all M&A transactions a turnover multiple of approx. 0.5 was paid – with one exception, where it was willing to pay an EBIT (Earnings Before Interests and Taxes) Multiple of approx. 10.0 (calculation according to documents of TÜV NORD Group). In contrast, TÜV SÜD has an average value for all M&A transactions of a turnover multiple of approx. 1.0 (calculation on the basis of the annual reports of TÜV SÜD AG published 2004-2011 and other external documents). In individual cases TÜV SÜD was willing to pay a significantly higher EBIT or EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation) multiple in connection with larger transactions, for example, the acquisition of PSB Corp. in Asia, where 12.9 times the EBITDA multiple was paid [25], or the acquisition of the Global Risk Consultants-Group in the USA. In this case, the EBIT multiple in relation to the net amount paid out came to approx. 16.2. [13].

In summary, it can be stated by the authors through the newly developed benchmark analysis and the measurement with standard evaluation methods that TÜV NORD chose a careful method for its M&A transactions and regarding the purchasing prices that were paid, while TÜV SÜD was quite willing to pay aggressive purchasing prices in the two-digit result multiples. Nevertheless, TÜV NORD could implement attractive M&A transactions, which contributed significantly to the growth of the enterprise and to the further technological development of TÜV NORD. Finally, it can be stated by the authors that through the developed and implemented holistic M&A process model in connection with further success factors (e.g. the developed risk analysis model) no write offs of any Goodwill had to be carried out at TÜV NORD. Thus, the holistic M&A process model is working properly. In contrast, TÜV SÜD had to write off Goodwill in the amount of €38.9 Mio. Therefore, its failure rate regarding M&A transactions reached approximately 15% - 20% of the investment volume. Both enterprises fared significantly better with their implementations of M&A transactions and with regard to their failure rates than the average of enterprises in the service market, which according to Jansen [5] had a failure rate of around 50% (as well [6]). With the help of the newly developed holistic M&A process model, whose effects and impacts were tested and objectified for third parties by measuring and analysing with the help of standard procedures, which are used in the evaluation of enterprises (market-approach, market multiples) in the case study, TÜV NORD did not have to record failures on the basis of the above calculations during the observed time period concerning the implementation of their M&A transactions.

4. Summary

A literature study and analysis of numerous empirical studies shows however a high failure rate of implemented M&A transactions (e.g. [5, 6]). An intensive research in the relevant scientific literature has shown that there are some more or less detailed structured theoretical models for M&A processes but there is missing a detailed and holistic concept for national and international M&A processes which consider the special features of M&A transactions in the testing service market and the service market in general. For this background it was the aim of the authors to develop such a holistic national and international M&A process model for enterprises in the testing service market and the service market to reduce the high failure rate of implemented M&A transactions.

Finally, it can be stated by the authors that with the help of the newly developed holistic M&A process model in connection with further success factors (e.g. risk management model, innovation management) TÜV NORD did not have to record failures during the observed time period concerning the implementation of their M&A transactions, while the failure rate of TÜV SÜD, the main competitor in the business field, regarding M&A transactions has reached approximately 15% - 20% of the investment volume as shown in the section before. Both enterprises are global leaders in the testing service market with comparable business activities and with more than 140 years of enterprise history.

Thus, the holistic M&A process model implemented in TÜV NORD is working properly. In the following, the most important success factors and individual measures of the developed and implemented holistic M&A process model by the authors will be presented:

- As part of every M&A process during the transaction phase a detailed risk analysis should be done. The implementation of a risk analysis model as developed and shown by the authors is an important success factor. Thereby the rather typical risk checks such as an examination of the financial and tax data and the legal foundations will be supplemented through a detailed examination of the Human-Resource-Assets.

The latter is especially important in connection with M&A transactions in the service sector and related cultural aspects with regards to the company that is targeted for acquisition because the business model is based on services that will be performed by people. The core of the Human-Resource examination is the evaluation of the Human-Resource-Assets on the basis of hard and soft facts. With the contribution by the authors TÜV NORD uses special check list for this, which were specifically developed for the testing service market and the service market in general.

- In the process of the risk examination of a potential target for acquisition no “black box” is accepted and all talks are terminated immediately in such cases.
- Before M&A transactions will be implemented in enterprises, besides the agreement of the TOP-Management, the agreement of a special investment committee exclusively responsible for M&A transactions should be necessary. This committee should be composed of responsible persons from the different enterprise divisions e.g. strategy, personnel, finance, controlling or law. This investment committee performs one more independent quality assurance to check, whether all relevant standards are observed during the M&A transactions.
- Identification of value driving aspects and innovation potential during a M&A transaction; avoidance of acquisitions where the Know-how lies only within some individual people in an enterprise.
- Interlocking of M&A transactions with the enterprise strategy.
- Experienced M&A Team with direct contact to the TOP management and integration of the people of the business field / business division in the enterprise that are relevant to the transaction; e.g. the contract negotiations with the seller should be managed by an experienced M&A team in order to avoid possible “hunting-drive” of employees who will later be responsible for the operational integration. In addition the risk of paying excessive purchasing prices as part of M&A transactions and the subsequent risk of future write-offs on the acquired enterprises or the capitalised Goodwill is reduced. Furthermore, so-called Earn Out Models can be used – in order to avoid exaggerated purchasing prices – where prices are paid to the seller, depending on achieved future result.
- In order to avoid the high purchasing prices in the testing service market companies with a turnover volume of €50 million or lower can be acquired and thus could bypass the usual bidding process and buy at acceptable/lower prices.
- Specific significance as part of M&A transactions should be given to an early and comprehensive process for the optimal integration of acquired corporations into the group. Appointing an integration manager is an advantage; with the contribution by the authors TÜV NORD does this regularly.
- In connection with the evaluation of the strategic business fields regarding the world-wide growth potential through M&A transactions a model for a country analysis can be introduced. Such a model which was developed with the support of the authors uses various parameters and key figures to evaluate and rank countries. In countries with the best rankings the highest priority is given to an examination of a possible entry into that market, e.g. through M&A transactions.
- In many cases M&A transactions are driven by opportunism, since regular market knowledge and market screenings are missing [26]. In contrast, the authors help to perform regular market screenings at TÜV NORD. These market screenings should be carried out under the leadership of a central staff unit in the respective strategic business fields. A stringent process should be installed for that purpose, where through central data bases such as Euler Hermes, M&A Database or so-called exchanges, where enterprises are searching for successors, regular queries are made.

Especially the above success factors enabled TÜV NORD with the help of a sustainable M&A strategy to improve its competitiveness – while maintaining the cultural identity – to increase its national and international growth and secure workplaces.

The above aspects have to be also seen in relation to the flexibility an enterprise has to access financial sources and equity capital. Medium and larger sized enterprises often have more flexibility in this regard since they can use the capital market if they are publicly listed. These enterprises can obtain cash from the capital market by raising their equity capital or by using alternative financial products for their M&A transactions or they can implement M&A transactions by using their own stock shares and preserving their cash.

The optimal integration of newly acquired corporations will require considerable management capacities, but these are generally a scarce resource in enterprises.

To avoid excessive demands, phases of strong growth through M&A transactions should be followed by phases of consolidation. In the same way the internal and external growth through M&A transactions should be balanced; this will help to distribute the risks that come with managing and developing enterprises equally on both types of growth. The presented success factors and individual measures can also be used by other enterprises especially those from the testing service market and service market in general.

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Figures and Tables



Figure 1. Holistic national and international M&A process model (author’s illustration)



Figure2. Identification of Risks

(Source: Own diagram based on internal documents of the TÜV NORD Group)

Economic key performance indicator	TÜV NORD		TÜV SÜD	
	2004	2011	2004	2011
Consolidated balance sheet:				
Goodwill (in €million)	--	56.8	1.2	135.6
Net financial position (in €million)	70.4	29.4	75.1	113.8
Ratio of Goodwill to equity capital (%)	--	48.7	0.6	28.8
Reinsurance quota for pension provisions (%)	95.7	77.5	84.3	75.5
Consolidated profit- and loss statement:				
Turnover (in €million)	600.7	922.6	978.3	1,552.5
Growth of turnover (%)	1.6	8.5	5.7	10.1
Write-offs on Goodwill (in €million)	--	--	0.5	12.2
Annual profit (in €million)	3.7	35.9	43.5	74.6
Productivity ratio:				
Return on turnover (%)	0.6	3.9	4.5	4.8
Return on equity (%)	2.7	30.8	21.7	15.8

Table1. Economic Key performance indicator (author's illustration based on [24])