Successful integration in cross-border acquisitions: 
Case studies of family business groups in Thailand

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The University of St. Gallen, Graduate School of Business Administration, Economics, Law and Social Sciences (HSG) hereby consents to the printing of the present dissertation, without hereby expressing any opinion on the views herein expressed.

St. Gallen, May 14, 2008

The President:

Prof. Ernst Mohr, PhD
To my parents

Keng and Pornpan Sithikornkul
Acknowledgements

This dissertation is the culmination of a long journey which started in 2002 after finishing my master studies at the University of St. Gallen. The whole endeavor has been difficult, yet rewarding, and would not have been possible without the enduring support of a few people.

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Geneva, July 2008
Chernrerthai Sithikornkul
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A. Introduction

1 Research background

1.1 Growing cross-border acquisition activities in Asia

Although cross-border acquisitions are much more developed in the rest of the world (Pryor, 2001; Datta, 1991), such activities have recently started to become more commonplace in Southeast Asia¹ (Mody and Negishi, 2000). Despite tough governmental regulations limiting the proliferation of cross-border acquisitions in most of the countries in the region (Dixon, 2004), these activities are widely seen as being inevitable in Asia over the long run (Anadan et al, 1998; Guild, 2000) as the region moves towards the maturity of enterprises, economies, political and legal systems. In fact, there have been a number of cross-border acquisition transactions in Southeast Asia as a result of the easing of regulations from the start of market liberalisation in the 1980’s and at the time of the Asian financial crisis between 1997 and 2001 (Anadan et al, 1998).

1.2 Gaps in existing literature

Despite the slowly, yet continuously increasing importance of cross-border acquisition activities in Asia, there is very little academic literature which addresses the cultural integration issues of such activities in Asia. Prior research in strategic management (Lubatkin, 1983; Singh and Montgomery, 1987) and human resource management (Buono and Bowitch, 1985; Hunt, 1990; Datta, 1991) generally focused on mergers and acquisitions in the United States and Southeast Asia refers to Thailand, Malaysia, Indonesia, and the Philippines. The dissertation excludes Singapore, due to its relatively high economic development level, compared to these 4 countries.
Europe. On the other hand, the human resource issues involving cross-border acquisitions in Asia have received considerably less attention. The existing literature is limited, fragmented, and anecdotal (Lim, 1996; Anadan et al, 1998; Haley, 2000; Mody and Negishi, 2001; Wright, 2001; Dixon, 2004).

Not only is there a lack of literature on the cultural integration issues of cross-border acquisitions in Asia, but there are, in general, few empirical articles on cross-border acquisitions involving family firms (Mickelson and Worley, 2003). Understanding the nature of family firms is crucial because family-owned enterprises are still the most common form of enterprise in Southeast Asian business and one of its most notable characteristics. As competition increases, there is a need for family companies to grow by getting financial contributions from outside investors, both locally and internationally. This has led to local and cross-border acquisitions, and a loss of family ownership and control (Lim, 1996). Seen from this perspective, an examination of the implications of cross-border acquisitions involving family firms is crucial in managing the cultural integration of acquisitions.

2 Research motivation

2.1 Objectives of this research and management implications

With the limited and fragmented literature on cross-border acquisitions in Asia, this dissertation aims to consolidate the existing knowledge as well as to investigate the subject empirically. The results of the research include the factors which are crucial to the success of cross-border acquisitions in Thailand and a thorough understanding of these factors. This will provide insights for Thai companies as well as foreign firms and managers who wish to enter into a cross-border partnership. The following exhibit illustrates the detailed research objectives.
Three specific issues are investigated. The dissertation seeks to first *understand* the rationales of Thai companies and their foreign partners who chose to enter into cross-border acquisitions. The second objective is to *identify* the integration-related challenges in cross-border acquisitions in Thailand as well as to *investigate* how partner firms overcame those challenges. Finally, the ultimate goal of the dissertation is to *develop suggestions* on how practitioners in other firms and industries can achieve successful integration in cross-border acquisitions.

### 2.2 Research questions

Based on these objectives, the detailed research questions have been identified (Exhibit 2). The dissertation seeks to find out what the cultural integration-related challenges in cross-border acquisitions in Thailand are; how partner firms overcome those challenges; the similarities/differences between these key
success factors in Thailand and other countries; and ultimately, how practitioners can successfully enable cross-border acquisitions integration.

Exhibit 2: Research questions

**Research question 1:** What are the cultural integration-related challenges in cross-border acquisitions in Thailand?

**Research question 2:** How do partner firms overcome these challenges?

**Research question 3:** What are the similarities/differences between these key success factors in Thailand and other countries? Why?

**Research question 4:** How can practitioners enable successful integration?

Exhibit 2: Research questions

The answers to the research questions include a set of cultural integration-related challenges and solutions. Ultimately, the outcome of these questions will give clues as to how practitioners can enable successful integration in cross-border acquisitions. This has important managerial implications for both local as well as foreign executives who engage in cross-border acquisition activities in Thailand and its region.

A number of authors (for example, Achtmeyer and Daniell, 1988; Rapporort, 1979) have suggested that the probabilities of the success of cross-border acquisition integration can be significantly improved through systematic planning. A thorough understanding of the rationales of Thai companies engaging in cross-border acquisition transactions and the critical success factors behind integration

---

3 Author’s illustration.
will allow for more careful planning and help organisations prioritise resources to achieve better synergy and outcome in cross-border acquisition transactions.

2.3 Structure of dissertation

The dissertation is structured on the research questions (see Exhibit 3). The next chapter of the dissertation reviews the literature related to the two key concepts – family business groups in Thailand and cultural integration in cross-border acquisitions. Based on the understanding of these concepts, the following chapter then presents a guided framework related to the cultural integration of cross-border acquisitions which involve family business groups in Thailand. The dissertation then investigates how companies overcome the challenges using an in-depth case study of the retail industry in Thailand. Finally, the results are discussed and suggestions are made on how practitioners can successfully enable post-acquisition integration.
3 Definition and description of key concepts

3.1 Cross-border acquisitions

The term “acquisition” is often used in conjunction with “mergers and acquisitions” (M&A). It is, however, important to identify the difference between the two types of transaction. According to Reed (1989), a merger occurs when one corporation is combined with and disappears into the other just like 2 rivers merging into a new bigger river. When two companies merge, one company is absorbed by the other and no longer exists as a separate firm; or an entirely new company may be formed by the consolidation of the two firms. On the other hand,
an acquisition occurs when a company buys all or a majority of the voting stock of another company and then runs the acquired company as a subsidiary.

In other words, the main difference is that acquisition is the generic term used to describe the transfer of ownership. Merger is a narrow, technical term for a particular procedure that may or may not be part of an acquisition (for example, Mississippi Corporation acquires all of Missouri’s stock, then Missouri merges into Mississippi); an acquisition can be done by means of a merger (for example, Mississippi merges with Missouri, calling in Missouri stock and replacing it with Mississippi stock or cash); or an acquisition can be done in which no merger occurs (for example, Mississippi acquires Missouri’s stock, and Missouri remains as a separate subsidiary of Mississippi; or Mississippi acquires all Missouri’s assets, leaving Missouri as a shell corporation with its original stockholders unchanged.

Henceforth, this dissertation uses the term acquisition to generalise the transfer of ownership (acquiring the majority of stocks) with no merger (the acquired company still exists as a separate identity). This is due to the fact that most cross-border acquisitions do not necessarily result in the merger of partner firms. Additionally, other “tie-ups” such as joint ventures, minority investments or strategic alliances are not included within the scope of the study.

3.2 Cultural Integration

As a result of acquisition, integration occurs at several levels. The initial and perhaps easiest integration of the acquired firms is done through the integration of procedures which is achieved by, for example, combining the accounting systems. Another type of integration is the integration of physical assets, product lines, production systems, and technologies. Cultural integration concerns the managerial and socio-cultural aspects of the acquisitions. This occurs among
management personnel and involves merging cultures and managerial viewpoints (Shrivastava, 1986).

Post-acquisition integration problems are common to most acquisitions. It has been estimated that almost half of all mergers and acquisitions simply do not work (Business Week, 1985), and one third of all failures are caused by faulty integration (Kitching, 1973). Typically, much attention is paid to the legal, financial, and operational elements of mergers and acquisitions. However, it has become increasingly known that the management of the human side of change is the real key to maximising the value of a deal (Kay and Shelton, 2000).

Given their importance, this dissertation will focus on and refer to the integration in the managerial and cultural aspects during and after the acquisition as well as the transition periods.
B. Literature review of key concepts

The following chapter provides an overview of the literature on the two key concepts – family business groups in Thailand and theories on cultural-related integration in cross-border acquisitions. The first step to understanding acquisition-related transactions in Thailand is to investigate the nature of the family business. This is due to the fact that the family-owned enterprise is the most common form of enterprise in the region (Wu and Wu, 1980; Lim and Gosling, 1983). In addition, the following sections highlight the research streams on the trends of cross-border acquisitions, the organisational culture and the cultural integration in cross-border acquisitions.

1 Family firms and cross-border acquisitions

1.1 Understanding the family firm

Definition

Defining a family firm is a challenging task (Sharma, 2004). Although the majority of firms in most countries have a significant impact of “family” in them (for example, Corbetta, 1995; Klein, 2000), scholars question the homogeneity of family firms (Sharma, 2002) because these firms are only rarely either-or family-related (Tsang, 2002). Instead, they vary in terms of degrees of family involvement.

Various scholars have tried to distinguish family from non-family firms by pointing out the important role of family in terms of determining the vision and control mechanisms used in a firm, and the creation of unique resources and capabilities. Astrachan and Shanker (2003) provide three operational definitions of
family firms. Firstly, family firms are defined as firms which have family voting control over the strategic direction of the firms. Secondly, they are firms whose families are directly involved in day-to-day operations. Finally, they are firms with both the two given characteristics. Based on these definitions, there are approximately 3 to 4.2 million family firms in the United States that provide employment to 27-62% of the workforce and contribute 29-64% of GDP (Sharma, 2004).

There have been efforts to find the source of the distinctiveness of family firms as opposed to the non-family ones (Coleman and Carsky, 1999; Gudmundson, Harman, and Tower, 1999; Westhead, Cowling, and Howorth, 2001; Anderson and Reeb, 2003; Littunen, 2003). Nevertheless, some scholars (Astrachan, Klein, and Smyrnios, 2002) suggest that researchers move away from a bi-polar treatment of firms as family or non-family firms and explore the mediating and moderating effects of family involvement in their studies. Although Daily and Thompson (1994) argue that entrepreneurial firms behave no differently in regard to strategic posturing (for example, they are motivated by factors such as differentiation, efficiency, and resource allocation), the study of Mickelson and Worley (2003) showed that there was a “family goal” which is not necessarily the same as a business goal.

Diversified business groups are significant players in the competitive landscape in many emerging economies. Many studies suggest that business groups act as substitutes for imperfect capital, labour, and product markets (for example in Kim et al, 2004).

Dynamics

A minority of family businesses – fewer than 30% – survive into the second generation, and even fewer – 15% – make it to the third generation (Ward, 1987). At the crossroad of deciding upon its future, a family firm may contemplate
transferring the business to the next generation; taking the firm public; undergoing a leveraged, management, or employee buyout; growing through acquisition; being acquired by another company; or try to expand on its own.

According to Fukuyama (1995), many observers believe that family ties have to weaken if economic progress is to occur. It follows logically that founders’ families should be removed from the management positions over the long run. Seen from this perspective, the number of family firms must shrink as a nation’s economy undergoes modernisation. It would, then, make sense that family businesses appear only in the first phases of industrialisation or in a few non-intensive industrial sectors. This perspective assumes, as a consequence, a trend towards institutional and organisational models. As Fukuyama suggested, economies need to shift from being dominated by family businesses to larger institutions in order to prosper.

Contrary to this widely accepted view, family businesses have shown themselves to be resilient in almost all developed economies although they have taken various forms, depending on the cultural, legal, and institutional frameworks of their respective countries (Colli, 2003). For example, a study by Hall, Melin, and Norqvist (2001) contradicted the family incompetence theorists that culture in family-owned enterprises may, in fact, be stronger as family members often take active and long-term roles in management. Similarly, Denison, Lief, and Ward (2004) found that family-controlled firms do have a distinct, performance-enhancing culture, due to their links with strong beliefs and core values. In order to provide a better understanding of the above arguments, the following points out some dynamics of family-owned enterprises in order to thoroughly understand the characteristics of family firms.

Alignment of principal-agent interests

The first characteristic of family firms is that owners are managers of the firms as well. In this respect, Schulze, Lubatkin, Dino, and Buchholtz (2001) and Gomez-Mejia, Muñez-Nickel, and Gutierrez (2002) began to question the applicability of
the central tenets of agency theory in the context of family firms. As Weber (1947) pointed out, the separation of ownership and management in firms may lead to a principal-agent relationship because managers (agents) may not make decisions that are in the best interest of owners (principals). It is, therefore, expected that the owner-manager structure in a family business would alleviate its agency problems.

Collectivistic rationality

Another interesting characteristic of family enterprises is the motivation of family members to behave for the collective good of the family, rather than out of self-interest (Morck and Yeung, 2003). In this respect, the stewardship theory (McGregor, 1960) was designed to explain this phenomenon. According to the theory, an individual views himself or herself as a “steward whose behaviour is ordered such that pro-organisational collectivistic behaviours have higher utility than individualistic, self-serving behaviours” (Davis, Shoorman, and Donaldson, 1997). From this viewpoint, dedicated family members are seen to be motivated by their collectivistic rationality (Hofstede, 1980).

Stronger culture

According to Kotter and Heskett (1992), culture refers to values that are shared by people in a group and that tend to persist over time even when group membership changes. In contrast to the family incompetence theorists, Hall, Melin, and Norqvist (2001) observed that culture in family-owned enterprises may, in fact, be stronger because family members not only have their positions within management, but also as family members. Therefore, they are more likely to take active and long-term views in regard to the firm’s management. Miller and Le Breton–Miller (2005) drew on a metaphor of grasshoppers versus ants to address the long-term view of the ant-like family enterprises. Similarly, Jaffe (1988) explained the strong culture of family business through the shared history and identity of family members, “The personal history of a family business is very special, because it is the story of a family and its way of making its mark in the world.” Moreover, Schein (1985) posited the explanation that a family business not only benefits from using the founder’s values and belief system as its anchor, but
also incorporates new learnings over time, as the organisation interacts with the environment. Additionally, Denison et al (2004) suggested that family firms have stronger culture than non-family ones. They conducted a comparative study to examine family business culture and performance relative to non-family firms. The results showed that the corporate cultures of family enterprises were more positive than the culture of firms without family affiliation.

*Institutionalisation of trust in low-trust societies*

Moreover, it is important to note that families act as institutions that create trust through kinship, especially in low-trust societies. Both the transaction cost and the agency theories hold that the family firms do well in national contexts that value the qualities of trust and reliability associated with the institution of the family. These qualities which are linked to solid reputations can significantly reduce the high costs produced by lack of information, uncertainty in commitment, and moral hazard. In this respect, it is not surprising to see the abundance of family enterprises in low-trust societies like those in Southeast Asia (Fukuyama, 1995).

These dynamics of family firms should be considered in order to understand the nature of the local partners, which are most likely to be family-owned businesses as discussed in the next section.

1.2 Family business groups in Southeast Asia

1.2.1 Dominance

Southeast Asian economies including Thailand have traditionally been dominated by ethnic Chinese family firms (Wu and Wu 1980). It is estimated that Singapore has an ethnic Chinese population of 77.6% controlling 81% of the market capital. Compare this to other countries. In Indonesia, the most highly populated country in South East Asia, 2.2% of the population are ethnic Chinese,
but they account for 73% of business. In Malaysia the figures are 30% and 69% respectively and for Thailand 14% and 81% (Haley et al, 1998).

Additionally, a lot of firms in the region are based on ethnic Chinese networks or "guanxi". The reason for this is the recent market economic development in Southeast Asia and the youthfulness of most firms in these economies (Lim, 1996).

While Southeast Asian business may well be dominated by the ethnic Chinese, it is also important to note that it is also dominated by a handful of extremely wealthy and influential individuals. The great majority of ethnic Chinese in Indonesia, Malaysia and Thailand, for example, are small businessmen who have not amassed much wealth at all from "guanxi" (Hewison, 1998).

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of firms</th>
<th>Average number of firms per family</th>
<th>% of total value of listed corporate asset that families control (1996)</th>
<th>Asset as a % of GDP (1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Top 5 families</td>
<td>Top 15 families</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>330</td>
<td>2.36</td>
<td>26.5</td>
<td>34.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>178</td>
<td>4.09</td>
<td>40.7</td>
<td>61.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>238</td>
<td>1.97</td>
<td>17.3</td>
<td>28.3</td>
</tr>
<tr>
<td>The Philippines</td>
<td>120</td>
<td>2.68</td>
<td>42.8</td>
<td>55.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>221</td>
<td>1.26</td>
<td>19.5</td>
<td>29.9</td>
</tr>
<tr>
<td>Taiwan</td>
<td>141</td>
<td>1.17</td>
<td>14.5</td>
<td>20.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>167</td>
<td>1.68</td>
<td>32.2</td>
<td>53.3</td>
</tr>
<tr>
<td>Japan</td>
<td>1240</td>
<td>1.04</td>
<td>1.8</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Exhibit 4: Concentration of assets in Asian economies\(^5\)

Compared to other countries in Southeast Asia, Thailand has a lower consciousness of ethnic separateness between the indigenous people and outsiders (Redding 1993). One suggested, but unproven, explanation for this peaceful assimilation of the ethnic Chinese into Thailand may be the similarity of Thai and Chinese value systems, both of which are founded on paternalism and a

\(^5\) Claessens, Djankov and Lang (2000)
reciprocal repayment of kindnesses between patrons and subordinates. At odds with this hypothesis, however, is the frequently stated contention that Thai and Chinese attitudes towards work, enjoyment of life, and acquisition of money differ.

The benevolence of the Thais is not naive, and there is evidence that Thai tolerance can reach its limits, as Skinner (1958) noted in an earlier study that the rich Chinese-Thai use intermarriage and the resultant interlocking family business associations to dominate the economic life of the country. The way in which such interlocking family groups burrow deep into the power-base of the economy is evidenced in a study by Hewison (1985) of the Thai banking industry. Out of these bases go extensive networks into other sectors of the economy. Marriage ties and interlocking directorships serve to reduce the risks inherent in business by providing a stable foundation for trust. In a society where, as in most developing countries, the rule of commercial law does not saturate the fabric of business life, and the quality of information available for decision making is often poor, it may be seen that explaining networking in terms of purely ethnic reasons would be simplistic. There are reasons of hard economic and business expediency as well as ethnic loyalties behind much of this behaviour (Redding, 1993).

1.2.2 History

This phenomenon has its roots in the pre-colonial era when the trade-oriented immigrants from south-eastern coastal China came to Southeast Asia (Chen, 1995). Here they were favoured by both local rulers and European colonialists as tax-collectors and commercial intermediaries with indigenous peasants. Being a small immigrant minority, they did not constitute a political threat to their patrons.

After independence, however, ethnic Chinese communities in some Southeast Asian countries were subject to nationalist government policies which

6 This attitude lasted until the emergence of nationalist movements across various Southeast Asian countries.
discriminated against them. In some cases, they were forced to reduce their business activities (Golay, Anspach, and Pfanner, 1969). This reinforced the need to develop relationships with powerful local politicians.

Later, in the late 1980s, there were two events which increased the public profile of ethnic Chinese capitalists in Southeast Asia. The first was the increased presence of foreign Chinese investors from Taiwan, Hong Kong, and Singapore who came to relocate labour-intensive export manufacturing to the cheaper ASEAN countries. The second was the economic rise of China which attracted large investments from Chinese businesses domiciled in Southeast Asia. For example, the Sino-Thai Charoen Pokphand group of Thailand is considered to be one of the largest foreign investors in China. Moreover, other large investments in China have been made by the Salim, Lippo, and other Chinese-Indonesian business groups as well as by Chinese-Malaysian, Chinese-Filipino, and Singaporean tycoons. These two developments have arguably led to a “re-signification” of, otherwise, locally assimilated Chinese business groups in Southeast Asia (Lim, 1996).

1.2.3 Characteristics

Overseas Chinese have developed one particular form of organisation, the family business, and kept to it. Despite the variable forms of these businesses, certain common denominators seem to never be deviated from. It remains in essence a family fortress, and at the same time, an instrument for the accumulation of wealth by a very specific set of people. It is guarded against incursions from outside influence, and its workings are not publicly known. It is usually run nepotistically, with a benevolent paternalism throughout. Much of its effectiveness derives from intense managerial dedication, much of its efficiency

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7 Association of Southeast Asian Nations.
8 See case study two.
from creating a work environment which matches the expectations of employees from the same culture. It is, in a very real sense, a cultural artefact (Redding, 1993).

Despite the similarities highlighted by Redding, there are differences among the sub-cultures within the overseas Chinese. In his work, Fukuyama (1995) noted that the typical Chinese business enterprise in Southeast Asia is a diversified, family-owned conglomerate headed by the founder patriarch or his immediate descendants. However, these local ethnic Chinese enterprises are essentially differentiated from those in Chinese-majority territories like Hong Kong, Taiwan, and Singapore by the specific nature of their relationships with the indigenous state, and with both Western and Japanese business organisations supplying them with technology and world market contacts. The Southeast Asian Chinese economies are arguably more likely to include both conglomerates and very large firms. Also, these firms are more concentrated in trade, services, and property development than in manufacturing on their own account without foreign partnerships. This is because they are less likely to develop a firm’s internal competitive advantages based on technology or marketing assets, but more likely to rely on privileged external relationships.

Deyo (1983) further explained that the distinctive characteristics of Chinese family enterprises are based on their adaptation to environmental conditions, particularly the abundant opportunities for entrepreneurship, the utility of networks and relationships, and the natural evolution of family-based enterprise, in fast-growing underdeveloped, but newly industrialising economies. This explains the relatively minor differences between local Chinese and indigenous business enterprises which are exposed to the same environment in Southeast Asia. Beyond shared genomics and politics, it is arguable that cultural differences between local Chinese and indigenous business enterprises are minimal, compared to the differences between Southeast Asian and Western cultural systems.
Additionally, Southeast Asian Chinese are different from indigenous people because their enterprises rely more heavily on ethnic and familial networks, while indigenous enterprises rely more on education and the state. For both groups of firms, government and private sector connections comprise a key competitive asset that enables them to access information, capital, and specific business opportunities, and to reduce risks and transaction costs. The following outlines some major characteristics of the Chinese family enterprises in Southeast Asia.

**Entrepreneurship and risk-taking**

Lim (1996) outlined several distinctive features of Southeast Asian business systems. The first is that they are located in underdeveloped economies which encourage the development of private institutional mechanisms such as networks and relationships to access information and reduce costs and risks. Rapid economic growth additionally rewards opportunistic, risk-taking behaviour, thereby encouraging an entrepreneurial mode of operation. This, together with the development of relationships as core competitive assets, leads to a conglomerate form of enterprise.

**Dependent on network and relationships**

The minority status of the Chinese has made relationships both within and outside the group more important to them. These relationships become the core competitive asset of Chinese family firms, given the relatively small markets and rapid growth of Southeast Asia. As migrants, they were not only arguably self-selected for risk-taking, ambition and entrepreneurialism, but also maintained international links with their home country and with fellow countrymen who had migrated to other countries in the region. These links facilitated trade in Southeast Asia. Their ethnic networks, which often had cross-national extensions, provided them with privileged access to scarce capital, information, and cheap loyal labour from within the Chinese community itself. This helped them to find business opportunities, assess and reduce risks, minimise transactions costs, and ensure collective security to advance their business interests in economies with
underdeveloped markets and institutions and imperfect information and price signals (Lim, 1996).

Ties between states and Chinese families

Their status as “outsiders” as well as their political vulnerability led the Chinese to cultivate relationships with those in power as a means of assuring political protection, accessing business opportunities in a controlled environment, and reducing risk. Their status as “outsiders” as well as their political vulnerability led the Chinese to cultivate relationships with those in power as a means of assuring political protection, accessing business opportunities in a controlled environment, and reducing risk.

Family oriented

The basic building block of the stable Confucian order is the family, and within that, the crucial stabilising feature is filial piety. If that is established, other relationships begin to fall naturally into their important but secondary places, for instance, that of husband and wife, that between brothers, between master and servant, etc. It was always in the family context that the cardinal lessons were learned and where the sense of gentlemanly conduct was inculcated.

Highlighting the family orientation, Redding (1993) also pointed out that the cultural legacy of overseas Chinese businesses has caused a distinct view of power and legitimacy. Power derives from ownership which is in turn vested in family rather than an individual. While this does create a kind of unquestioning obedience, it also introduces a very distinct, a particularly Chinese, organisational defect. This is that nobody outside the owning group can generate for himself truly legitimate authority. This becomes a significant handicap to the grafting on of a middle and senior management group made up of competent professionals, and it becomes an important component of the explanation of why Chinese family businesses are unable to escape from the formula of family domination. Although there are occasional exceptions, and although change is possible and occurs in many fields, the overwhelming impression is that the status quo as regards
authority being legitimated only through ownership is proving remarkably resilient and resistant to the forces of modernisation.

Collectivism and Face

According to Hofstede (1980), cultures with high power distance exhibit high levels of collectivism, while those with low power distance are characterised normally by individualism. Most overseas Chinese societies are collectivist. Despite the fact that they are not collectivist to the most extreme degree, they are clearly so in a way which separates them from virtually all Western cultures.

The implications of a collectivist society among the overseas Chinese can be seen in the importance of their socialisation. Empirical evidence for the downplaying of self and the upgrading of relationships by Chinese people in the organisational context was gathered by Redding (1993). The Chinese respondents – middle managers – display a concern for the importance of social needs, which is fairly close to the salience attached to autonomy and self-actualisation. On the other hand, for the large sample of Western managers, the gap between the two levels is wide and the importance of the self is clearly dominant.

According to Redding, the lack of an ultimate authority, as a supra-mundane God, leaves the individual without grounds for supporting as a separate person a sacred cause or a universally applicable principle, such as Christian charity, and replaces them with piety towards specific people, especially those in close proximity.

He further argues that this system of child-rearing is common to Chinese everywhere. The child, under a combined and apparently concerted set of experiences at home and in school, is taught to suppress aggressive behaviour. Despite the fact that physical punishment can occasionally be rigorous at home, disorder at school is eliminated by moral education, through the promotion of examples to follow, and through the value of group membership. The person
invests in the group. This investment which he then cannot afford to lose becomes his face.

Although face is a human universal, and most societies civilise their members by raising their sensitivity to the views others hold of them, the importance of it for the Chinese is simply much greater. Given the lack of alternative forms of control, such as the call of some more abstract morality, this is perhaps not surprising. The results for the Chinese are that loss of face becomes a real dread affecting the nervous system, more strongly than physical fear.

### 1.3 Cross-border acquisition and its impacts on family business groups

#### 1.3.1 Acquisition trends

Since the 1960’s, international joint ventures have gained popularity as opposed to wholly owned subsidiaries (Shenkar & Zeira, 1987). Since the 1970’s, there has been an increasing number of companies that grow by combining with other companies through mergers and acquisitions (UNCTAD, 2004). Despite the increasing significance of cross-border acquisitions in the global markets, the activity is less important in Asian countries, with the exception of large privatisation deals when governments have sold government-owned telecommunications or other utility companies to foreign buyers. Until very recently even Japan has been notably subdued in cross-border acquisition activity, due to the view of Japanese firms that most acquisitions were predatory and did not benefit the buying company. However, as of 1998, Japan was in the top 20 buyer and seller countries of cross-border acquisitions (Mody & Negishi, 2001). In addition, it is also important to note that acquisitions in the region were concentrated in service sectors which had traditionally been insulated from competition.

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9 Transnational corporations (TNCs) may acquire or merge with companies in other countries, resulting in a cross-border merger or acquisition.
During the financial crisis in 1997, however, the number of cross-border acquisitions increased dramatically in the region. This wave of acquisitions was triggered by important policy changes following the crisis, particularly in Korea and Thailand (Exhibit 5). According to Mody and Negishi (2001), these changes were expected to speed up the much needed corporate and financial restructuring and, hence, facilitate a faster economic recovery.

Exhibit 5: Cross-border acquisitions in crisis countries, 1995-2000\textsuperscript{10}

In Thailand, only 9.6 percent of foreign investment involved the acquisition of holdings of more than 10 percent of the equity of the Thai companies between 1990 and 1996. In contrast, 61 percent of the 1997-2001 foreign inflows involved acquisitions of this level (see exhibit 6). This is a result of the governmental moves to liberalise foreign ownership following the Thai government reaching agreement with the International Monetary Fund (Dixon, 2004).

\textsuperscript{10} Thomson financial securities data.
After the Asian economic crisis, the resistance to bankruptcy, takeovers and mergers continues to rest on the high levels of family ownership, the prevailing business culture and the low levels of capitalisation (Tejapira, 2002). Before the crisis, a study by Claessens, Djankov, and Lang (as cited by Dixon, 2004) concluded that 61.6 percent of all publicly traded companies in Thailand were family-controlled. However, this undermines the true level of control because of the large numbers of major concerns that were not listed and the very complex nature of the interlocking ownership patterns and family linkages that makes establishing the full extent of control extremely difficult. Under such ownership conditions mergers and takeovers have been unusual and hostile takeovers extremely rare.

According to Richardson (2002), it is not surprising that the collapse and closure of concerns, rather than takeovers and mergers, seems to have so far been the main vehicle for concentration of activity and changes in ownership patterns. This is particularly striking in the non-banking financial institutions and property sectors. Although some family firms managed to strike acquisition deals and thus recovered (exhibit 7), many were left in bankruptcy. It has been suggested that the majority of the 30-40 pre-crisis family empires have crumbled, leaving only 4-5

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**Exhibit 6: Foreign direct investment and cross-border acquisitions in Thailand**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net FDI (bn. USD)</th>
<th>M&amp;A (bn. USD)</th>
<th>M&amp;A as % of FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-96</td>
<td>14.1</td>
<td>1.4</td>
<td>9.6</td>
</tr>
<tr>
<td>1997</td>
<td>3.9</td>
<td>0.8</td>
<td>20.5</td>
</tr>
<tr>
<td>1998</td>
<td>7.3</td>
<td>5.4</td>
<td>74.0</td>
</tr>
<tr>
<td>1999</td>
<td>6.2</td>
<td>4.6</td>
<td>74.2</td>
</tr>
<tr>
<td>2000</td>
<td>3.4</td>
<td>3.1</td>
<td>91.2</td>
</tr>
<tr>
<td>2001</td>
<td>3.8</td>
<td>1.1</td>
<td>28.9</td>
</tr>
<tr>
<td>2002</td>
<td>1.1</td>
<td>0.3</td>
<td>22.7</td>
</tr>
<tr>
<td>1997-2001</td>
<td>24.6</td>
<td>15.0</td>
<td>61.0</td>
</tr>
</tbody>
</table>

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functioning family groups in a dominant position. This implies a significant increase in the concentration of ownership over a very short period after the crisis.

Limitations to traditional cross-border M&As:
1. Governmental regulations which protect local family businesses
2. Hostile attitude of family businesses towards losing ownership

Exhibit 7: Loss of family control after Asia financial crisis

In Thailand, some immediate moves were made to liberalise foreign ownership following the agreement between the Thai government and the International Monetary Fund in mid-August 1997. In October 1997, the government announced that majority stakes would be permitted in the distressed financial sector for up to ten years, after which any holdings over 49 percent would have to be sold to local investors. Later in the same month, Thailand’s Board of Investment (BOI) permitted majority sales of Thai companies operating under its promotion scheme.

<table>
<thead>
<tr>
<th>Type of shareholders</th>
<th>Total 1996</th>
<th>%</th>
<th>Total 2000</th>
<th>%</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Family-owned (F)</td>
<td>150</td>
<td>33.5</td>
<td>131</td>
<td>30.3</td>
<td>-19</td>
</tr>
<tr>
<td>2. Semi-family-owned (FW)</td>
<td>66</td>
<td>14.7</td>
<td>52</td>
<td>12.0</td>
<td>-14</td>
</tr>
<tr>
<td>3. Widely-held</td>
<td>160</td>
<td>35.7</td>
<td>145</td>
<td>33.5</td>
<td>-15</td>
</tr>
<tr>
<td>4. Foreign-owned</td>
<td>59</td>
<td>13.2</td>
<td>90</td>
<td>20.8</td>
<td>31</td>
</tr>
<tr>
<td>5. State or state enterprise</td>
<td>13</td>
<td>2.9</td>
<td>15</td>
<td>3.5</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total listed firms</strong></td>
<td><strong>448</strong></td>
<td><strong>100.0</strong></td>
<td><strong>433</strong></td>
<td><strong>100.0</strong></td>
<td><strong>-15</strong></td>
</tr>
<tr>
<td><strong>Family owned firms (F+FW)</strong></td>
<td><strong>216</strong></td>
<td><strong>48.2</strong></td>
<td><strong>183</strong></td>
<td><strong>42.3</strong></td>
<td><strong>-33</strong></td>
</tr>
</tbody>
</table>

Exhibit 7: Loss of family control after Asia financial crisis

12 Author’s adaptation of the data from Suehiro and Wailerdsak (2004)
in Bangkok and its immediate environs, provided that the local owners agreed. This was extended to the rest of the country in February 1998 (Dixon, 2004).

Despite the fact that foreign participation continues to be limited to some 57 specified activities on the grounds of national security, cultural considerations and environmental issues, a study by Ratprasatporn & Thienpreecha (2002) suggested that between the end of 1998 and March 2002, the Thai economy was progressively opened to foreign investment and, in most areas, majority foreign ownership. This also applies not only to Thailand, but also to other countries in Southeast Asia and will be discussed in the next section.

1.3.2 Drivers of cross-border acquisitions in Southeast Asia

Previously, there were many hurdles to cross-border acquisition opportunities in Asia such as government restrictions and the reluctance to sell among the targets. More recently, acquisition has become a viable strategy for growth in the region. This is a result of the following factors.

Historical ties with international trading

Western multinationals started to expand their enterprises to Southeast Asia during the colonial era in the form of trading companies and export plantations. Thus, they occupied a major, if not dominant, role in the modern sectors of Southeast Asian economies, even before the investment liberalisations of the late 1980s and 1990s. Since the 1970s, the presence of Western multinationals has steadily increased as these economies have grown and developed new sectors, and barriers to foreign trade and investment have been progressively reduced (Lim, 1995). Until the 1990’s, Western investment in Southeast Asia was most attracted by the region’s abundant physical resources and cheap labour, and the possibilities they provided for competitive exports to world markets. Western enterprise was least represented in manufacturing for protected local markets, where joint ventures with local partners, often with only a minority foreign stake,
were usually required. In consumer products, however, licensing to local manufacturers was common (Lim, 1996).

**Increased international competition**

With economic development, market imperfections diminish and new legal and financial institutions become established (Lim, 1996). It was during the 1980s that market liberalisation in the region and the increasing size of the market forced enterprises to need local, as well as international, public sources of capital. Coupled with the economic crisis in 1997-2001 and the uncompetitive performance of Asian companies, Asian countries have been witnessing deregulation on foreign acquisition, privatisation, and divergence of family conglomerates (Anadan et al, 1998).

**Need for public and foreign capital**

At the same time, the growing size and complexity of Southeast Asian enterprises increases their need for public sources of capital, for example, through emerging local equity and bond markets, participation in global financial markets, and professional management. Yvonne Chia, Managing Director of RHB Bank Berhad of Malaysia, believes that the main drivers for acquisitions in Asia are the same as in any other part of the world: efficient capital allocation, the need for rapid technological innovation, and improved level of service and shareholder value (East Asia Economic Summit, 1999).

1.3.3 **Obstacles of cross-border acquisitions in Southeast Asia**

Despite the growing number of cross-border acquisitions in the region, Southeast Asia has a number of obstacles to further expansion of the activities.
Governmental regulation on foreign ownership

Most countries, except Singapore, imposed at least some restrictions on foreign investment, largely by requiring majority local ownership in resource exploitation and domestic market-oriented sectors, and/or phase-ins to increased local ownership over time\textsuperscript{13}. By the 1970s, one hundred-percent foreign ownership was permitted in export-oriented manufacturing, and the economic reforms of the 1980s resulted in further investment liberalisation. This continued into the 1990s, with the most dramatic example being Indonesia’s lifting of the local ownership phase-in requirements in May 1994 which led to a record USD 24 billion of new foreign investment commitments in that year and an additional USD 10 billion in the first two months of 1995 alone. There have even been suggestions that Southeast Asia may be receiving “too much” foreign capital (Modi and Negishi, 2000).

Weak corporate governance and accounting standards

Edgar Krökel, Vice-President of the mergers and acquisitions department at DaimlerChrysler, stated that while takeovers are already a “new reality” in Asia, it is difficult to predict future developments. As the leading driving factors of acquisitions in Asia, he identified debt-equity restructuring, the break-up of conglomerates and structural overcapacity. Shareholders are not the only decision-makers in major asset realignments, and employees and banks also play an important role. This phenomenon implies a relative lack of transparency and virtual absence of venture capital. Krökel enumerated some of the factors that inhibit international mergers in Asia – differences in valuation of companies (historic asset value in Asia vs. discounted cash flow methods in Europe and US), high debt in most Asian companies, and pension provisions (East Asia Economic Summit, 1999).

\textsuperscript{13} This happens most in Indonesia (Lim, 1996).
1.4 Conclusions: Implications for Chinese family enterprises

In conclusion, foreign firms still often find that the Thai companies they wish to acquire owned and operated by families. There are some exceptions as the family groups have gone through the era of modern evolution, which is accompanied by increasing global competitive pressure and cross-border acquisition waves. Nevertheless, family business groups still play an important role in Thailand’s economy. According to Kim et al (2004), business groups in the young economies play an important role as substitutes for impact capital, labour, and product markets. As a result, these groups are usually characterised by their private institutional mechanisms such as networks and relationships (Lim 1996).

Because the low institutionalised market often means more risks, many entrepreneurs in Thailand have sought to reduce these risks by diversifying from their core businesses into other areas. The well-diversified family conglomerate is, therefore, a common phenomenon in Thailand. Additionally, the evolution of Thailand’s retail trade suggests that firms still have strong linkage to owner families. These links do seem to be weakening in the third generation of ethnic Chinese entrepreneurs as the younger generation incorporates modern management into their ancestors’ firms. Nevertheless, a number of family business groups in Thailand are still very much related to the family members. Given that local knowledge and network is one of the most important resources contributed by the Thai partners, the family members still play a crucial role in the success of the acquisitions of family businesses. To better understand the situation, the following points outline some impacts of recent cross-border acquisitions on Asian family firms.

Dilution of family control

The need to grow by external investors – both in local and international financial markets – leads to a loss of family ownership and control. External capital
providers often demand more transparency in business practices as well as better management (Anandan et al, 1998).

**Struggle and justification to preserve “old way” of doing business**

Whether the new company leaders come from family members or are unrelated professional managers, their ways of doing business are likely to differ from those of their founders. For both groups, these ways are perhaps more likely to resemble the modern managerial training and experience of the leaders. On the other hand, as Lim (1996) pointed out in her work, it is unlikely that this change in the way Southeast Asian families do business would occur overnight or be complete. First, except for Singapore, the Southeast Asian economies have a long way to go before they become developed14, thus the “old ways” of doing business will retain their utility. Second, the “old ways” will be maintained because of their usefulness in the less developed economies of neighbouring countries like China and Vietnam, where Southeast Asian companies are increasingly involved. Third, indigenous policies are unlikely to be completely eliminated given concerns about business domination by the ethnic Chinese minority and/or foreigners. Therefore, market liberalisation is unlikely to be complete. Fourth, there is considerable utility in the “old ways” even in an advanced modern economy. For example, high-tech industry is characterised by rapid growth, the proliferation of multiple new opportunities, imperfect information, high risk and uncertainty, short product-cycles, and first-mover advantages rewarding speed to market. Trust based on long-term relationships can help in accessing information and patient capital, encouraging risk-taking, and permitting flexibility and speed in operations. This type of high-tech industry is already increasingly common in East Asia, particularly Taiwan, but has yet to make its appearance in Southeast Asia outside Singapore.

Supporting the retention of the region’s traditional ways of management, Woo (2002) concluded that Chinese business practice is market-adaptive and efficient enough that it needs little reform. According to him, reforms of these structures

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14 The notion of western “development” will force Asian companies that wish to become “developed” to accept the western ways of doing business.
and practices are not only proving extremely difficult, but if successful, might well seriously damage both the resilience and dynamism of the domestically owned business sectors in Southeast Asia.

2 Cultural integration in cross-border acquisitions

This section underlines the second research stream relating to the human resource issues, particularly the cultural integration issues in cross-border acquisitions.

2.1 Understanding organisational culture

2.1.1 Definition of organisational culture

Webster’s New Collegiate Dictionary (1980) defines culture as “the integrated pattern of human behaviours that includes thought, speech, action, and artefacts and depends on human capacity for learning and transmitting knowledge to succeeding generations.” This definition points to several important aspects of culture. Firstly, culture permeates all human behaviours and interactions. Secondly, culture is shared by members of a group. Furthermore, it is handed down to newcomers and from one generation to the next. This definition of culture is not aimed at organisations but is, however, very applicable to them (Nahavandi and Malekzaheh, 1993).

Schein (1997) defined culture as an intrinsically abstract concept that integrates and explains the shared overt and visible behavioural rituals, beliefs, and values of a group. Similarly, Cartwright and Cooper (2000) stressed the power and social interaction aspects of culture. According to them, culture is considered to be a powerful, enduring, and pervasive influence on human behaviour. Through the
socialisation process within a culture, individuals learn the norms and expectations of membership of that society, the right and wrong ways of doing things, acceptable and unacceptable forms of behaviour, and language. According to them, culture is not merely a set of shared values, but a set of basic assumptions, and beliefs which operate in an often unconscious “taken for granted” fashion, as a powerful determinant of individual and group behaviours. Culture has a visibility and a “feel ability”. One is often more conscious when moving from one culture to another in what is termed “culture shock”. This aspect of culture leads to the later discussion of mergers and acquisitions when two cultures face confrontation.

Developed from the notion of culture, organisational culture is a well used, but perhaps less well understood concept. There are many definitions of organisational culture within management literature. All tend to reflect the essence of the classical sociological/anthropological definition of the concept as concerns the internalisation of a set of values, feelings, attitudes and expectations, which provide meaning, order and stability to members’ lives and influence their behaviour.

Smircich (1985) defined organisational culture as shared meanings or patterns of belief, symbols, rituals, and myths that evolve across time and that function as social glue. According to him, organisational culture could also be seen as being fairly stable with a set of assumptions taken for granted, leading to meaningful interpretations and values that form a kind of backdrop for action. Similarly, Schein (1985) defined the term as a pattern of basic assumptions – invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

Applying the concept of culture to organisations gives them a human quality. Organisations become much more than the profit margin, the buildings, and the organisational charts. As living entities, organisations grow and change. They
adapt to their environment and maintain internal health. Put simply, organisational culture is “the way in which things get done within an organisation” (Schein, 1985). The cultural assumptions and beliefs of an organisation are learnt by its members through socialisation. To the newly recruited, “learning the ropes” means more than learning how to apply the requisite task skills; it involves a wider socialisation process of inculcation and subsequent acceptance of the culture.

According to Nahavandi and Malekzadeh (1988), culture is the yardstick used to evaluate many behaviours and ideas, and it provides a basis for the development of goals and strategies. For example, an organisation where one of the basic assumptions is that people perform best under minimal control and supervision and need autonomy to excel would consider heavy-handed management techniques used by one of their new managers unacceptable. Furthermore, such an organisation would be more likely to select a training program for developing participative management skills over one focusing on methods for developing power. In their work, Nahavandi and Malekzadeh highlighted the case of the company W.L. Gore and Associates. One of the distinguishing characteristics of the firm is its informality and the absence of hierarchy and status symbols. Employees and managers do not have formal titles, and creative problem solving is highly encouraged. As a result, the use of status symbols that would indicate a hierarchy is considered highly inappropriate. This example demonstrates how a basic cultural assumption about factors that lead to effectiveness is used to determine which behaviours are acceptable.

2.1.2 Assessing organisational culture

In his book, Schein (1997) explained the concept of cultural context, using the case study of the Singaporean Economic Development Board. He pointed out that just as one cannot understand the dynamics of the lily pond without examining the stalks, the roots, and the composition of the water and mud under the surface of the pond, so one cannot understand culture without looking for the roots, the
nutrients, and the principles of growth that explain the surface phenomena one sees in an organisation. This way of thinking about culture is shown diagrammatically in Exhibit 8.

According to Schein, the most surface level of the culture can be thought of as the observable *artefacts* of an organisation. The artefacts are very palpable and vivid, but they are hard to decipher because of the likelihood that the observer will project his or her own cultural assumptions onto them. Observing the patterns of colour and distribution of blossoms on the lily pond does not reveal the nature of the root system, the depth of the pond, or the nutrients or pollutants that may be in the water or the mud underneath.

To begin to understand a culture, one must then move to the next level of inquiry by asking members of an organisation *why* they do certain things, which usually elicits what one could call the *espoused values* of the organisation. At this level one has the official philosophy, the mission statement, and the various justifications that members use to explain their behaviour. The observer will often note, however, inconsistencies between the espoused values and what the overt behaviour or artefacts suggest.

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15 Schein (1997)
To resolve such inconsistencies it is necessary to go to a further level of inquiry, the level of shared tacit assumptions. Shared tacit assumptions are the real drivers of the observed behaviour and are therefore what one can think of as the underlying essence of the culture, the hidden part of the lily pond. Such tacit assumptions often complement each other in complex and subtle ways and, if the organisation has a reasonably long history, become patterned into a system or paradigm.

In other words, to fully understand the meaning of different observed behaviours and the espoused values, one must understand the underlying paradigm that the members of the organisation use to structure their reality. One can think of such paradigms as “shared mental models” that structure how the members of an organisation perceive, think about, and feel about themselves and the environment around them. Once the components of the paradigm are identified, one can then also track the possible origins of those components in historical and broader cultural terms.

2.2 Understanding cross-border acquisitions

2.2.1 Motives and trends

Companies acquire or merge with other companies for a number of reasons. They may be attempting to eliminate a competitor, to enter into the market in another region, to diversify their products or services, to gain control over one of their suppliers or of a distributor of their products. In high technology fields such as electronics and pharmaceuticals, cross-border acquisitions are often a way for a company to acquire or share the expertise, technology and experience of other companies.

Today, cross-border acquisitions have become an increasingly important force in international business as many countries have liberalised their trade and
investment markets and as global competitive pressures have increased. In developed countries, mostly between the United States and the European Union, foreign direct investment has recently become almost completely made up of cross-border acquisitions (UNCTAD, 2004).

2.2.2 Integration issues in cross-border acquisitions

The primary problem in effectively managing the merged or the acquired firms is integrating them into a single unit. It has been estimated that almost half to two thirds of all mergers and acquisitions simply do not work (Business Week, 1985), and one third of all failures are caused by faulty integration (Kitching, 1973). According to Shrivastava (1986), this integration must occur at several levels.

<table>
<thead>
<tr>
<th></th>
<th>Coordination</th>
<th>Control</th>
<th>Conflict Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procedural</strong></td>
<td>• Design accounting systems and procedures</td>
<td>• Design management controlling system</td>
<td>• Eliminate contradictory rules and procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Rationalise systems</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td>• Encourage sharing of resources</td>
<td>• Measure and manage the productivity of resource</td>
<td>• Resource allocations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Asset redeployment</td>
</tr>
<tr>
<td><strong>Managerial and</strong></td>
<td>• Establish integrator roles</td>
<td>• Design compensation and reward systems</td>
<td>• Stabilise power sharing</td>
</tr>
<tr>
<td><strong>Socio-cultural</strong></td>
<td>• Change organisation structure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 9: Post-acquisition integration tasks\(^{16}\)

The first two types of integration – procedural and physical – have been discussed in accounting and management literature since the 1960’s (Searby 1969, Hovers 1975, Arnold 1983, as cited by Shrivastava, 1986). It was not until

\(^{16}\) Shrivastava (1986)
the mid 1980’s that the socio-cultural integration of cross-border acquisitions became crucial to cross-border acquisition theorists and practitioners. All three types of integration involve: (1) coordinating activities to achieve overall organisational goals; (2) monitoring and controlling individual departmental activities to ensure that they are complementary and are being performed at adequate levels of quality and output; and (3) resolving conflicts between the fragmented interests of specialised departments, individuals, and their inconsistent sub-goals.

The initial and perhaps easiest integration of the merged or acquired firms is done through the integration of procedures that is achieved by, for example, combining the accounting systems. Another type of integration is the integration of physical assets, product lines, production systems, and technologies. The most critical type of integration is managerial and socio-cultural integration. This occurs in management personnel and involves merging cultures and managerial viewpoints.

The type of integration issue focused upon in this dissertation is that which concerns the managerial and cultural aspects.

2.3 Literature streams on integration in acquisitions

From the literature, two most important research streams on integration issues in cross-border acquisitions can be identified – the concept of fit and the management of the integration process.

2.3.1 Concept of fit

Two independent streams of management research have explored the concept of fit in mergers and acquisitions. One stream examined the cross-sectional
relationship between firm level measures of financial performance and the strategic fit of the buying and selling firms (Singh and Montgomery, 1988; Shelton, 1988; Lubatkin, 1987; Chatterjee, 1986). Interestingly, these studies have hypothesised, but failed to find a consistent relationship between performance gains and the degree to which the merging firms share similar technologies. The studies found a large variance in performance among acquiring firms engaged in mergers and acquisitions of similar strategic fit.

Following the proliferation of research on financial and strategic fit from the early 1980s, literature from later in that decade and the early 1990s has extensively investigated the issues of organisational fit in cross-border acquisitions (for example, Lubatkin, 1983). Specifically, this second stream of research has examined the cultural fit of the buying and selling firms and its impact on the success of the combination (Buono, Bowditch, and Lewis, 1985; Nahavandi and Malekzadeh, 1988; Jemison and Sitkin, 1986).

These studies suggest that implementation difficulties probably play a critical role in determining the eventual performance of cross-border acquisitions. For example, Schweiger, Ivancevich, and Power (1987) attributed poor post-acquisition performance as a result of anxiety, distrust, and conflict. Moreover, Datta (1991) pointed out the importance of organisational fit as one of the crucial determinants of acquisition performance because it influences the ease with which two organisations can be assimilated after an acquisition. Similarly, Buono, Bowditch, and Lewis (1985) raised the importance of “cultural ambiguity”, a situation characterised by uncertainties concerning whose management style should be adopted at the acquired firm. They further suggested that differences in management styles might be one main reason why cross-border acquisitions often fail to achieve the expected level of performance.

Chatterjee et al (1992) concluded that by merely focusing on the strategic fit issues such as potential economies of scale has done little to improve the success rate of cross-border acquisition integration. They also empirically found a
significant relationship between cultural fit and cross-border acquisition performance. It is not surprising that literature since the early 1990’s has placed more focus on the human resource and cultural issues of cross-border acquisition integration (for example, Cartwright and Cooper, 1993).

2.3.2 Management of integration process

Following the concept of fit (strategic fit in the 1970’s and cultural fit in the 1980’s and 1990’s), another research stream puts the focus on the integration process and the importance of taking a systematic approach to increase the chances of a successful integration (Scweiger, Ivancevich and Power, 1987; Mirvis and Marks, 1992; Cartwright and Cooper, 1993). The acquisition process may be conceptualised in two stages: pre-acquisition and post-acquisition.

Cartwright and Cooper (2000) proposed two human factors as being important to the success of mergers and acquisitions which determine the speed and effectiveness with which integration can be achieved. These are, on the one hand, the cultural compatibility of the combining organisations and the resultant cultural dynamics and, on the other hand, the way in which the integrational process is managed.

In their research, Jemison and Sitkin (1986) suggested that acquisitions are strategic, complex, occur sporadically (for most firms), and affect varied stakeholder groups and multiple actors. Their main argument was that firms’ involvement in acquisitions is, in general, discontinuous. This relies upon the fact that few firms make acquisitions on a routine basis. Naturally, their focuses are more towards the ongoing businesses in their areas of responsibility. In contrast with other strategic responsibilities, the follow-through, which is so critical to the acquisition success, is overlooked because of the discontinuous nature of the process. In addition, when an acquisition opportunity presents itself, most managers are unfamiliar with the subtleties of what will transpire. Thus, firms often
rely heavily on outside advisors whose interests may not coincide with those of the firm and whose expertise concerns acquisition analysis and deal negotiation rather than post-merger integration. These softer, but crucial, issues are therefore not given much credence.

Moreover, Jemison and Sitkin argued that involvement in acquisitions is usually fractionated. Many different groups from both inside and outside the firms are involved in an acquisition. Therefore, they tend to approach the process from their own interests rather than to consider how the acquired firm will be run after the acquisition (for example, getting a higher price for the sale of the firm, saving jobs at a manufacturing facility, insuring a job or securing a golden parachute for themselves after the acquisition). This challenge can be overcome through commitment from a management taking into account a wider array of interests. However, the dilemma usually starts with the initial challenge of getting the managers’ continuous attention.

2.4 Conclusions: Literature review on cross-border acquisitions involving family firms

There are few empirical articles on cross-border acquisitions involving family firms. A study by Astrachan (1988) concluded that the acquiring firm should evaluate the way it intends to manage the acquired family firm and its community, as well as the fit between these intentions and the cultural assumptions already in place.

Another study by Bork et al (1996) found that decisions to sell family businesses are often deterred, as complex family dynamics can lead to the perception that selling the business means selling out the family. However, they argued that doing so can be both financially and emotionally rewarding and does not have to be viewed as a failure.
From the literature review, there are a few points to be summarised. First, there are certain similarities between the characteristics of family businesses in Thailand and those noted in previous literature, for example, the entrepreneurial spirit, consideration of family as well as business goals, and strong family culture and commitment. Moreover, the literature suggests that there is relational significance between human resource integration and the success of cross-border acquisitions.

3 Guided framework

The guided framework of this dissertation combines the two main research streams in the study of cross-border acquisition integration (Exhibit 10). The dissertation’s fundamental argument is that the success or failure of cross-border acquisitions should be seen as a product of the fit between the partners at the outset of the acquisition as well as in the ongoing management of the integration process.

Exhibit 10: The three theoretical building blocks of the dissertation framework

Furthermore, the dissertation points out that both theoretical building blocks (inter-part fit and the management of the acquisition process) are based on the

17 Author’s illustration.
assumptions of well-institutionalised markets. It is important to note that the market players in Thailand operate in a relatively young and less institutionalised environment than those in the west. For example, the term “strategic fit” already implies that both partners entering into the relationship share similar economic goals as the main decision driver. The question remains whether or not this is the case in Thailand, where a majority of firms is still owned by families, as discussed in the literature review. Hence, the dissertation highlights the need to investigate and explain those two concepts thoroughly. Based on the theoretical guided framework, empirical investigation in Thailand will be used to verify the related variables.

The following sections present the sub-variables which characterise the inter-partner fit and the management of the acquisition process. In addition, possible indicators of the acquisition performance are outlined. Finally, the dissertation’s guided framework, which includes these three main variables, is presented at the end of the section.

3.1 Inter-partner fit

Literature relating to the concept of the inter-partner fit has been developed over time. Currently, there are two research streams. The first focuses on the relationship between financial performance and strategic fit and the other examines cultural fit and the success of the combination. These two approaches, when combined, can make an important contribution towards understanding the performance of mergers (Chatterjee et al, 1992).

In addition to the two main variables from the cross-border acquisition literature, the author found that the literature on international joint ventures provides additional variables which are worth investigating. Similar to that in cross-border acquisitions, research in international joint ventures also deals with the issue of organisational as well as national differences. In this respect, the dissertation
investigates the extended set of variables adapted from the work of Yan and Duan (2003). These variables include (1) Objective fit, (2) Synergy potential, (3) Fit between resources and control, and (4) Cultural fit.

3.1.1 Objective fit

First, inter-partner fit depends on the congruence between the two sets of objectives of the partners. In his work, Williamson (1975) argued that congruent objectives can minimise the transaction costs associated with partner opportunism and with the installation of surveillance mechanisms. Later research in strategic management (for example, Singh and Montgomery, 1988 and Lubatkin, 1987) generally focused on the role of strategic fit and synergistic benefits as determinants of acquisition performance. The synergistic potential, especially in related businesses, includes operating efficiencies and economies of scales.

3.1.2 Synergy potential

The concept of synergy is closely linked to objective fit between the partners. However, it focuses solely on partners' resources. Resource dependence theory (Pfeffer and Salancik, 1978) argued that firms cooperate to manage their interdependence and reciprocal needs for critical resources. Chi (1994) stated that "complementarities exist between two sets of resources when a joint use of them can potentially yield a higher total return than the sum of returns that can be earned if each set of resources is used independently of the other." In more specific terms, Hill and Hellriegel (1994) argued that complementarities occur "only when the partners bring distinctive competencies that are different and non-overlapping," thereby stressing the "non-redundant" nature of partner resources.
3.1.3 Fit between resources and control

Yan and Duan (2003) explained that bargaining power is a negotiating party’s ability to favourably change the bargaining relationship, to win accommodations from the other party, and to influence the negotiation’s outcomes. Management control, on the other hand, is the process by which an organisation influences its subunits and members to behave in ways that lead to the attainment of its objectives. A positive link between bargaining power and control has been documented in other international joint venture research. For example, Yan and Gray (1994) found that ventures with equally matched bargaining power between the partners were equipped with a shared control structure. However, the ventures in which bargaining power was unequally divided adopted an unbalanced control structure in which the more powerful partner dominated.

A logical extension of the correspondence between bargaining power and control is that when co-alignment exists between the two variables (for example, the control structure is consistent with the structure of bargaining power), each partner achieves what it deserves so that its position in relation to the other in the partnership is justified. As a result, the venture’s stability increases. When such a co-aligning balance is tilted, however, it produces dissatisfied players who feel the control exercised by their partner is undeserved. This perceived inequality and injustice gives rise to inter-partner politics and juggling-for-control activities which subsequently hurt performance.

3.1.4 Cultural fit

Chatterjee et al (1992) found that there was a link between the financial performance of the merged firms and human capital in both firms. Specifically, they found that investors are generally sceptical about mergers where the cultures between the top management teams are perceived to be incompatible, while they are supportive of mergers where the cultures appear to be compatible. They
concluded, therefore, that the management of a buying firm should pay at least as much attention to the issues of cultural fit during the pre-merger search process as they do to the issues of strategic fit.

The same study also found multiculturalism to have an impact on performance and not just from the perspective of cultural differences. Their findings suggested that overemphasis on controlling newly acquired firms by imposing goals and decisions on them may be dysfunctional. In other words, as tolerance decreases, so does the market’s earnings expectations. Therefore, integration needs to proceed carefully in order to read any anticipated synergies. To show intolerance towards the acquired managers’ culture is to threaten the cooperation and commitment of the very group who may be instrumental in determining the merger’s ultimate success.

The four dimensions of inter-partner fit discussed above helped the author define the focus of the study and, served as a preliminary framework guiding the case analyses. In summary, inter-partner fit in the research framework includes the following variables – objective fit, synergy potential, fit between resources and control, and cultural fit (Exhibit 11).

<table>
<thead>
<tr>
<th>Inter-partner Fit</th>
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</thead>
<tbody>
<tr>
<td>Objective fit</td>
</tr>
<tr>
<td>Synergy potential</td>
</tr>
<tr>
<td>Fit between resources and control</td>
</tr>
<tr>
<td>Cultural fit</td>
</tr>
</tbody>
</table>

Exhibit 11: Variables which represent inter-part fit

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18 Author’s illustration.
3.2 The management of the acquisition process

Apart from inter-partner fit which represents a set of quality or partners’ characteristics at the outset of an acquisition, the management of the acquisition process is another theoretical concept which is used to investigate the success or failure of acquisitions. The literature suggests that the acquisition process may be conceptualised in two broad stages: pre-acquisition and post-acquisition. By taking a systematic approach, the chances of a successful integration are increased.

Previous literature has revealed three possible dimensions of the management of the acquisition process, namely (1) Due diligence, (2) Planning and agreement, and (3) Communication and implementation.

3.2.1 Due diligence

The basic function of due diligence is to assess the benefits and the liabilities of a proposed acquisition by inquiring into all relevant aspects of the past, present, and predictable future of the business to be purchased. According to Reed (1989), the due diligence process begins from the moment a buyer senses a possible acquisition opportunity. The buyer then starts to examine the information about the target that is readily available during this early period. This information is usually derived from public documents. The initial stage of the due diligence review is the search and screen process. This review seeks to answer the questions: Should we buy this company? How much should we, and can we, pay for it? The scope and focus of due diligence has been extended over time. To date, the focused issues include strategic, financial, tax, legal, market, human resource, cultural, environmental, commercial-technical, and information technology (Berens, Brauner and Strauch, 2005).
3.2.2 Planning and agreement

Addressing the inter-firm relationships, Ring and Van de Ven (1994) noted that it is pivotal for the participating firms to create consensus on the key cultural expectations, purposes, and values that govern the inter-firm arrangement. Such consensus, according to these authors, serves as “psychological contracts among parties” and increases the partners’ formal commitment to the cooperation. In international joint venture literature, Hill and Hellriegel (1994) argued that superior performance is associated with the sharing of “similar operating philosophies” or “the same business style” between the partners. When joint ventures are governed by an integrated management system that is either developed independently or adopted from one of the parents, performance can be enhanced. Similarly, Yan and Duan (2003) found that consensus among the partners on the joint venture’s mission, strategy and operating principles significantly contributed to international joint venture performance. Partner consensus minimises destructive conflicts, political behaviours, and confusion of authority among the joint venture’s employees.

3.2.3 Communication and implementation

With acquisitions, uncertainties usually arise amid the organisational and personnel changes. This uncertainty creates stress for employees but cannot be easily avoided since many of the changes associated with acquisitions are evolutionary, and final outcomes are often not known during negotiations (Jemison and Sitkin, 1986). Even when top managers do know what changes will occur, they are often unable or unwilling to discuss the changes with employees due to the secrecy of the transactions (Mirvis and Marks, 1992). Regardless of its cause, any failure to communicate leaves employees uncertain about their futures, and it is often this uncertainty, rather than the changes themselves, that is so stressful for employees. Such uncertainty and anxiety can lead to such dysfunctional
outcomes as stress, job dissatisfaction, low trust in the organisation and commitment, and increased intentions to leave the organisation.

In his work, Bastien (1987) suggested that communications might increase performance and reduce uncertainty. Schweiger and Denisi (1991) used a field experiment to confirm that a preview program, which is designed to enhance two-way communication between management and employees, can help reduce the level of employees’ uncertainty, increase satisfaction, and increase trust to the company.

To summarise, the management of the acquisition process needs to be considered in all its phases: due diligence, planning and agreement to communication and implementation.

<table>
<thead>
<tr>
<th>Management of process</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Due diligence</td>
</tr>
<tr>
<td>• Planning and agreement</td>
</tr>
<tr>
<td>• Communication and implementation</td>
</tr>
</tbody>
</table>

Exhibit 12: Variables which represent the management of acquisition process¹⁹

### 3.3 Acquisition performance

According to Fukuyama (1995), it is wrong to believe that only economic goals, in the narrow sense, can be considered rational. Also, Mickelson and Worley (2003) showed that there was a “family goal” which is not necessarily same as a business goal. Taking this view into account, this dissertation will assess performance through a combination of statistical measures (to evaluate the overall

¹⁹ Author’s illustration.
financial performance of the companies) as well as perceptual ones (to measure the level of partners’ satisfaction). The specific details on variables and measurement will be discussed in section C 1.4. The following exhibit presents the dissertation’s guided framework with three main variables.

Exhibit 13: Dissertation guided framework

Based on this guided framework, the variables and the sub-variables will be verified by the empirical investigation in the next chapters.

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20 Author’s illustration.
C. Case study design and background

This chapter explains why the case study method was the selected research strategy of this dissertation, how it was designed and how the data was collected and analysed. The objective of the chapter is to create a systematic approach to research methodology which is used to verify the dissertation framework.

1 Research design

One of the first and most important questions any researcher has to answer is which research strategy or strategies he will have to consider when designing the research (Yin, 1994).

According to Yin, there are five main research strategies: archival analysis, survey, experiment, history and case study. The choice of research strategy depends on first, the type of research question posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary as opposed to historical events. The suitability of the different strategies is illustrated in the following exhibit.
1.1 Why a case study is chosen as a research strategy

This dissertation aims to answer a combination of what, how, and why questions: *What* are the cultural integration-related challenges in cross-border acquisitions in Thailand? *How* do partner firms overcome these challenges? *What* are the similarities/differences between these key success factors in Thailand and other countries? *Why*? *How* could practitioners enable successful integration?

The research role of the dissertation is, therefore, a mixture of exploratory and explanatory – first, gathering secondary data and conducting expert interviews in order to explore general views on cross-border acquisition activities in Thailand and then trying to explain what the key success factors are in cross-border acquisition integration and why. The research questions do not require control over behavioural events and the investigation involves a combination of

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21 Yin (1994)
contemporary and historical events. As a result, the most appropriate method to be used to answer these questions is the case study method.

“The distinct need for case studies arises out of the desire to understand complex social phenomena. Case study allows an investigation to retain the holistic and meaningful characteristics of real-life events,” (Yin, 1994). That is the case for this research since the culture of a company and its rationales are closely intertwined, making it very difficult to distinguish between each other.

1.2 Structure of case study

The case study’s structure is designed based on the above mentioned research questions. Step 1 explores the acquisition trends in Thailand’s retail industry. Step 2 elaborates on the background of the case firms including their evolution and how acquisitions were initiated. Step 3 highlights the fit of partners at the outset of the acquisitions. Step 4 underlines the acquisition-related challenges and how integration was managed at each stage of the acquisition process. Step 5 presents the outcomes of the acquisition. Step 6 compares the challenges and solutions among the case firms (as well as to the western literature) and summarises the major findings of the case study. The following exhibit shows the case studies’ structure.
1.3 Units of analysis

The units of analysis involve a single case study which is the retail industry in Thailand. The investigation, however, is embedded with two subunits – the two biggest family business groups; each has experienced a number of partnerships with foreign retailers. Several factors in the cases selection were considered. First, the retail industry ranks among the most active industries in cross-border acquisitions.
Second, the author focuses on one industry in order to minimise the extraneous variation (Eisenhardt, 1989) that might result from the industry differences. Third, the two selected cases are representative of cross-border acquisition transactions in the retail industry in Thailand and involve family business groups. The fourth factor considered was the fact that the partnership had been in operation for a period of time so that data on changes over time were available. Finally, accessibility to informants is important because, by design, multiple informants from each transaction were needed to agree to interviews. The following exhibit presents the profiles of the interviewed firms.

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22 Thomson Financial Securities Data.

The time horizon of the analysis is 10 years – from the beginning of the deals (1997) to until the post-integration period (2007). Unavoidably, this criterion limits the number of interviewees. Nevertheless, it allows the research to investigate the longitudinal development of each subunit.

1.4 Variables and measurement

Investigators should formulate a research problem and possibly specify some potentially important variables, with some reference to extant literature. However, they should avoid thinking about specific relationships between variables and theories as much as possible, especially at the outset of the process (Eisenhardt, 1989).

Even though the author aims to limit any preconditions as much as possible, important variables need to be outlined in order to give some guidelines in data collection and analysis. Therefore, the variables are identified in the research’s theoretical framework and are to be used as guidance to the structured interview questions. The inter-partner fit consists of objective fit, cultural fit and tolerance to multiculturalism. On the other hand, the variables within the management of the acquisition process are due diligence, planning and agreement, and implementation and communication. The following section presents the main variables of the research and interview questions.

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24 Author’s illustration.
1.4.1 Inter-partner fit

To investigate the objective fit of the partners, the following questions are asked: What were the rationales of the firms that motivated them to enter into the acquisitions? How did the firm view the acquisition offer – as treat or opportunity? By adopting the approach of Yan and Duan (2003), I assessed synergy potential by gauging the distinctiveness between the partner’s contributions: What were the expected resources contributed by each partner? To measure the fit between partners’ resources and control, the following questions were asked: How were the seats/control being allocated between the partners? What was the agreed share structure and management structure? How about today?

There are many ways to measure cultural fits. Datta (1991) used differences in management styles and organisational systems, particularly reward and evaluation systems. Lubatkin (1983) used management styles, organisational systems (for example, reward and evaluation system), organisational structure, and organisational culture. Chatterjee et al (1992) created 7 factors as measures including innovation and action orientation, risk-taking, lateral integration, top management contact, autonomy and decision-making, performance orientation, and reward orientation.

This dissertation used mainly open-ended questions, so that interviewees had the freedom to focus their answers on what they deemed important. The questions concerning cultural fit include: How would you describe the cultures of both sides at the outset of the acquisition? Were there cultural differences? Would there be a difference in cultural fit had the acquirer been a Thai company? Given that interviewees might not be familiar with the subject, a structured rating was also used to complement the results of the open-ended questions. In this respect, the seven cultural factors from Chatterjee et al (1992) were applied. Specifically, the interviewees were asked to rate the level of the differences of each cultural aspect using a five-point scale: very different, different, somewhat different, same, and very much same.
1.4.2 Management of the acquisition process

To measure the management of the acquisition process, open-ended questions were used to investigate each sub-variable.

Due diligence procedure: How would you describe your experience during the due diligence phase of the partnership? Who were the stakeholders? Who led the negotiation process? Were inter-partner fit areas discussed during due diligence?

Description of planning and agreement: How would you describe your experience during the planning and negotiation phase? Who led the negotiation process? How was trust between the partners created? How were agreements reached? How were the agreements between the “old ways” and “new ways” of management reached?

Communication and implementation: How would you describe your experience during the transitional phase? Who led the change process? What kinds of changes were introduced? How were changes introduced? What kinds of communication measures were taken during the transition?

1.4.3 Acquisition performance

The acquisition performance was measured by a combination of statistical measures (to evaluate the overall financial performance of the companies) as well as perceptual ones (to measure the level of partners’ satisfaction). First, interviewees were asked to provide the data on their companies’ financial performance in the five-year period between 1997 and 2001. Initially, the five performance criteria, which have been widely used in prior research (Datta, 1991), were to be used as measurements: Return on Investment (ROI), Earnings per Share (EPS), stock price, cash flow, and sales growth.
However, there are a few problems associated with this approach in measuring the performance of the acquisitions. Firstly, Tops and Tesco-Lotus are not listed companies and therefore cannot provide stock prices. Secondly, heavy investment was required due to the fact that the retail trade industry during the case period was at a stage of rapid growth. According to a Central management executive (personal interview, 2006), it is not a good idea to use profit as a performance indicator because new ventures make initial losses at the beginning due to the investment in store expansions.

As the best solution, interviewees as well as the retail trade financial analyst at UBS Thailand (Athaporn Arayasantiparb, UBS financial analyst, personal interview 2006) suggested the following performance criteria to be applied to the case studies: sales revenue, same store sales growth and market share.

In a separate question, each interviewee was asked to rate the achievement of the partner objectives based on their prior expectations. Moreover, they were asked to rate the inter-partner working relationship.25

1.5 Data collection

Case study research is a comprehensive strategy that does not focus on the techniques of data collection, but on specific real-world situations which can be researched with a wide variety of tools (Yin, 1994). In this case study, the author decided to use both the open-ended interviews and the analysis of documents such as newspaper scripts and financial reports. By combining data from multiple sources, the data can be triangulated and the empirical grounding of constructs and hypotheses enhanced.

25 See Appendix A.2 for detailed interview questions.
1.5.1 Data collection channels

The empirical research for this dissertation was conducted between October 2005 and October 2006. Within this time period, 20 interviews were conducted. Archival data was analysed for each acquisition transaction, including organisational charts, corporate reports, and newspaper and magazine reports on the case firms. The following table provides an overview of the main channels used to collect case data.

<table>
<thead>
<tr>
<th>Channels</th>
<th>Types</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal interviews at macro-level</td>
<td>2 expert interviews with M&amp;As experts</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td></td>
<td>2 expert interviews with economics professors</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td></td>
<td>2 expert interviews with regulatory officials</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td>Personal interviews at firm-level</td>
<td>2 interviews with family members</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td></td>
<td>6 interviews with management level</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td></td>
<td>6 interviews with employees</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td>Document analysis</td>
<td>Internal presentations</td>
<td>Oct 05 – Oct 06</td>
</tr>
<tr>
<td></td>
<td>Online reports</td>
<td>Oct 04 – Jun 07</td>
</tr>
<tr>
<td></td>
<td>Financial reports</td>
<td>Oct 04 – Jun 07</td>
</tr>
<tr>
<td></td>
<td>Newspaper scripts</td>
<td>Oct 04 – Jun 07</td>
</tr>
</tbody>
</table>

Exhibit 18: Data collection channels

At the firm level, the study was started in 2002 or five years after the crisis which allows for a more detailed investigation in trend and results. Participants were selected based on their involvement in the acquisition process and their ability to provide a comprehensive view of the integration process.

26 Author’s illustration.
1.5.2 Personal interviews

Personal interviews were conducted both at the macro-level and the firm level (see Appendix A.1 and A.2 for the listing of interview questions). The first set of interviews was conducted with Thailand’s cross-border acquisitions and financial specialists in order to gain an understanding of the general cross-border acquisitions trends in the country. An additional two interviews with economics professors allowed the author to look at the retail industry and foreign partnerships from an economic point of view. Lastly, two senior governmental officials were also questioned in order to learn more about legal environment of foreign partnership and investment in the country.

At the firm level, interviews were conducted with the family members in order to gain a good understanding of the historical and operational background of the companies. In addition, two interviews with top level executives who personally participated in the due diligence process provided knowledge from the management point of view. An additional two interviews with heads of departments were conducted to capture pre- and post-integration experiences and to find out what the major challenges are and how participants cope with these challenges.

Interview questions are based on the research questions and the framework of the research. The exploratory interviews were employed to gain a preliminary understanding of the research field. Each question was built upon the previous responses of interviewees and followed their train of thought, though still within the parameters defined by the interview guide. Semi-structured interviews were designed to enrich and crosscheck versions of the same events covered in the exploratory ones as well as to get more information about the pre-defined variables27 in case the interviewees did not make mention of them. Each interview lasted about two hours and was tape recorded unless the informants objected. At

27 With the list of variables (inter-partner fit at pre-integration, management of acquisition process during and post-integration and post-integration performance).
the end of each interview, the recordings were transcribed into documents. To ensure accuracy, the transcript was then sent back to the interviewee for confirmation.

The interview structure comprised four parts. The first part focuses on history and culture of the organisations. The second part addresses inter-partner fit. The third part focuses on the management of the acquisition process during and after the transaction. The last part focuses on the interviewee’s evaluation of the acquisition’s performance.

1.6 Data analysis

Since the case study is likely to generate a great amount of data, it was important to develop a coherent picture of the individual cases as soon as possible and to organise the data accordingly. Therefore, a structural procedure in data analysis was defined.

1.6.1 Logical link of data to propositions

It is important to note that the data analysis is an ongoing activity throughout the data collection period (Stake, 1995). In this case study, the data analysis was conducted through an iterative process illustrated in the following exhibit.
Exhibit 19: Integrated approach to data collection and analysis

The data collection and analysis process began with a set of case study variables mentioned in the previous parts. The interview, however, always started with exploratory questions. Based on the answers to those questions, different variables were identified and grouped into “pre-defined” and “new” variables. In case interviewees did not mention the case study variables or each variable needed to be clarified in detail, they were asked again using the semi-structured protocol. At the same time, the new set of variables derived from the open questions was identified. Finally, the set of variables and their details were gathered.

1.6.2 Criteria for judging the success of the case study

The case study is considered to be successful when the results of the case study lead to the theoretical propositions on factors contributing to the success of

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28 Author’s illustration.
cross-border acquisitions in Thailand. Specifically, the following criteria are to be met.

At the macro-level, the case study successfully “describes” acquisition trends in general as well as in the retail sector. It should also show the environment associated with the acquisition transactions – influences from economic and governmental regulations on the perception of the Thai firms towards cross-border acquisitions.

At the firm level, the history of the family business groups, especially their characteristics and rationales behind entering into the acquisition transactions, need to be thoroughly understood. Next, the variables related to the inter-partner fit as well as management at each process during and after the integration phase need to be identified. Then, the case study must be able to demonstrate a reasonable relationship between each variable and performance of the acquisition transaction. Finally, the importance of each relationship must be shown in order to prioritise the variables.

The long time horizon of the case study and the necessity to select interviewees who have participated in the events from the beginning to the end unavoidably limits the number of people available for interview. This limitation, however, needs to be alleviated by the data richness of each interviewee’s input. Moreover, reliability is to be ensured by comparing data among the interviewees. Apart from the interview data, the author also performed a rival test by using the interviews’ data together with archival documents such as newspaper scripts as well as macro-interviews with experts (when available).
2 Case study background

In order to answer research question 1 (the trends of cross-border acquisition activities in Thailand and the perception of local firms) and question 2 (the challenges and the solutions associated with cross-border acquisition activities in Thailand), one needs to thoroughly understand the development of the Thai retail trade sector. This section combines an understanding of history and contemporary views from experts in order to understand the environment in which the case firms operate.

2.1 Evolution of the retail sector in Thailand

According to Paupongsakorn (1998), retailing covers all activities related to directly selling goods or services to the end customers who consume those goods or services by themselves and do not resell them. The history of retailing in Thailand can be broken down into three eras.

2.1.1 Era I: Traditional retail trade before World War I

Under the rule of King Ramkamhang, Sukhothai has fish in the water and rice in the paddy fields. Our lords build roads for commoners to travel. Who wish to trade elephants will do so. Who wish to trade horses will do so (Thailand’s Department of Arts, 1982, as cited by Paupongsakorn, 1998).

29 Historical periods in Siam (the old name of Thailand) are categorised by the three ruling dynasties, which also reflects the changes in the countries' capital cities – Sukhothai (1238-1438), Ayudhaya (1350-1767), and Bangkok (1782-present).
The first document about Thailand’s retail trade dates back to the Sukhothai period in the year 1296. According to the document, trade liberalization was apparent at that time. There were neither taxes imposed on the local populations nor on the foreign traders. The lords were instructed by King Ramkamhang to arrange basic facilities such as town markets, roads and canals between towns, as well as security to traders. The document states that the king himself travelled to China two times to bring back samples of Chinese pottery and later produced them domestically.

After the Sukhothai dynasty, Ayudhya emerged as the new capital of Thailand. During this period, the country was mainly characterised by expansion, wars with neighbouring countries, and the import of foreign goods as well as labour from India, Japan and Europe. Foreigners were hired to work for the government. It was recorded that technology transfer through overseas trading and international human resources had already started at that time. Thailand in this period was very much occupied by wars and needed to be ready for conflict at all times. This necessity to tightly control supplies resulted in the domination of the Royal Trading Ministry. Fresh markets gained importance both in and outside Ayudhya’s city wall. Another form of retail trade which emerged in this period was “mobile trading” operated mostly by the Chinese traders who travelled by boat from one place to another in order to sell goods throughout the country.

After the short occupation of Ayudhya by Burma30, Thailand successfully fought for its independence and moved the capital to Bangkok, which is now the current capital of the country. During the early period of settlement, the threat of war was still apparent. This continued until peace finally came to the country in the mid eighteenth century, which in turn, resulted in less need for the Royal Trading Ministry to regulate the country’s international trading. From that moment on, public trading gained in importance. Most trade was done at the local “canal

30 The name Burma was changed into Myanmar in 1989.
markets\textsuperscript{31} and on the Chinese ocean liners which were transformed into retail shops once embarked in Bangkok. At this time, the Chinese started to establish their dominance in Thailand’s trading scenes – both on water and land markets around Bangkok. Also Europeans\textsuperscript{32} travelled into the country to supply luxury goods to the upper class.

2.1.2 Era II: The World Wars and modernisation of retail trade

During and after World War I, Thailand’s retail trade went into recession and this especially affected businesses involving Germany and its allies. The importance in trading shifted significantly to Chinese migrants whose goods were aimed for sale to the middle class. Their shops were simple and usually located on the first floors of multi-residence houses.

In 1932, Thailand’s economic recession led to the change in constitution and political system from monarchy to democracy. The government at that time tried to stimulate the economy and, at the same time, limit the role of Chinese migrants in the country’s retail trade. Not only did the attempt prove unsuccessful, it also forced the Chinese communities to gather and form institutions\textsuperscript{33} in order to adapt to the new governmental pressure.

The trend in anti-Chinese attitudes continued into the World War II period, when nationalism was paramount. The government endorsed campaigns to encourage indigenous people to set up shops to sell rice and other agricultural products. This attempt, again, failed. The shortage of goods during the war favoured some Chinese traders who made large fortunes from the black markets and through co-operation with the Japanese, Thailand’s ally during the war.

\textsuperscript{31} Thai communities and houses at that time were built along canals. Later with more roads being built, trading centres moved from along canals to roads.

\textsuperscript{32} Mainly German and British.

\textsuperscript{33} In the forms of Chinese Chamber of Commerce and many other organisations.
Traditionally, Thai households shopped for fresh food daily for their cooking at nearby fresh markets and grocery stores. These traditional market places were part of society and represented the local culture. It was not until 1964 that the first foreign (Japanese) investor invested in Thailand’s first department store, Thai Daimaru. Later in 1967, Central Group opened the first professionally managed department store owned by a local operator and started to dominate the Thai retail business. The success of these two department stores was followed by those of their other shopping centres. In 1974 Central Department Store opened another branch in Bangkok. As the number of department stores increased, the middle class increasingly became their main customers. In 1979, a group of Thai employees from Thai Daimaru opened a new large department store called Robinson, which later became one of the most prominent department store operators in Bangkok. In 1981, another group of Thai investors opened the department store The Mall.

Economic development and an increasing per capita income between 1968 and 1982 were the key factors for the expansion in shopping centres and department stores in Bangkok. With further increase in per capita income and the growing population during 1983-1988, the Bangkok residential area expanded to the suburbs. Adapting to this change in demographics, Thai department stores also expanded their branches in suburban areas. Two digit growth rate during 1987-1989 resulted in the expansion of the modern retail trade sector. As the economy boomed, the real estate prices increased. Financial liberalisation allowed the inflow of foreign loans. There was overinvestment in department stores due to high consumer income coupled with investors’ speculation on real estate prices.

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34 In 2001, total retail trade value was 1,194.1 billion Baht of which 53.2% came from modern retail trade and the other 46.8% from traditional trade. The pattern of retail trade switched from mainly traditional trade (74.0% in 1997) towards modern trade.

35 Because sellers were usually very familiar with buyers, there was large room for flexibility, for example, on prices, terms of payment and the marketplace itself.
At the end of this era, four family business groups emerged as the leaders in Thailand’s retail sector – Central, CP, The Mall and Robinson. Because of the tense competition among themselves as well as the threat from the new foreign operators, these groups started to consolidate. In 1995, Central and Robinson merged. CP and The Mall also collaborated. The total market share in retail trade of these groups was estimated at 75% (Tokrisna, 2003).

2.1.3 Era III: During and after the Asian economic crisis (1997-2002)

Due to the Asian economic crisis in 1997, the modern retail trade, with its rapid expansion, found itself in trouble. The Thai Baht currency devaluation resulted in local retail operators, who were heavily funded by foreign loans in foreign currencies, being unable to pay their debts. In many cases, their businesses were forced to be sold to foreign investors.

Before the economic crisis, the major shares in Thailand’s modern retail trade sector were held by local investors (see Exhibit 20). In 1998, the CP Group owned 100% of Lotus Supercenter and later sold 92% of its shares to British Tesco during the economic crisis. Similarly, Central Group sold 66% of its shares in BigC Supercenter to the French group Casino. Moreover, the group divested its holdings in Carrefour to SSCP Holding and the French Carrefour. Also, Central Group sold Tops Supermarket outright to Royal Ahold. The Dutch group Delhaize increased its share in Food Lion Supermarket (from 45% to 49%), while the Thai investors merged and still held 51%.
2.2 Impact of Thai retail trade’s evolution on the case study

Following the given chronology of different eras in the Thai retail trade, this section outlines their implications to the case study. Both case firms were the two biggest retail groups during the time period of the case (1997 when the Asia economic crisis started until five years later in 2001 when it ended).

2.2.1 Major changes in the local retail trade

From the previous section, it can be concluded that the retail trade in Thailand has been transformed by two major changes. The first is a move from the traditional wet markets and the small shops to the modern giant hypermarkets. The second is the invasion of Western multinationals.

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Paupongsakorn (2002)
The first change, marked by the end of the World War I, was led by modernisation as opposed to the traditional era of Thailand’s retail trade. The new era of modern trade was also categorised by the increasing importance of Chinese migrants and the country’s middle class. Due to nationalist movements, the Chinese were forced to institutionalise themselves and relied on their networks. These networks allowed them to reduce transaction costs and the time to react to the fast changing market environment. The trust-based credits given by local banks allowed businesses to expand rapidly. At the end of this era, powerful family business groups were established\(^\text{37}\). Similar to other overseas Chinese in the region, business groups in Thailand consist of well-diversified companies in order to cope with the risks of the weak market institutions. As competition in the retail sector increased, the family groups reacted by inter-cooperating with each other. While the Thai consumers became more demanding and foreign operators entered the market to cater to their increasingly sophisticated needs, modern trade channels such as supermarkets and hypermarkets came to replace traditional ones like the wet markets and the traditional “mom & pop” stores. Exhibit 21 presents the evolution of Thailand’s retail sector in the era of modernisation.

\(^{37}\) Refer to Exhibit 4.
The second major change to Thailand’s retail trade was triggered by globalisation and the Asian economic crisis (see Exhibit 22). A decade ago, Thai retailing comprised local business run by locals. At the end of the Asian economic crisis, it was on the verge of becoming a sector dominated by foreigners. Five years after the crisis, foreign retailers across Asia were less concerned with local competition than with each other. This was faster than anybody could have predicted. In the words of Joe Lobbato, a retailing expert at the consultancy firm Accenture, the market is leapfrogging “from zero to great sophistication” (The Economist, 2001).

Exhibit 21: Evolution of Thailand retail sector in Era I\textsuperscript{38}

\textsuperscript{38} Author’s adaptation of co-evolution framework designed by Carney and Gedajlovic (2002).
This time around, partnering with each other to cope with the increasing competition did not seem to be enough for the local retailers to survive. As competition increased, many family business groups needed to reorganise themselves significantly by partnering with foreign operators in order to gain management and technological know-how. Others were forced to sell parts of their non-core businesses to foreign companies in order to allow enough liquidity to save their core businesses. As shown in Exhibit 16, wholesale and retail trade ranked second in cross-border acquisitions in Thailand, only second to finance and real estate which was at the heart of the economic crisis.

One reason to explain this is that during the good years, many business groups diversified into wholesale and retail trade. When the difficult time came, many chose to sell off these businesses which were complimentary, but non-core activities to the groups (Dr. Kongkiat Opaswongkarn, personal interview, 2006).

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39 Author’s adaptation of co-evolution framework designed Carney and Gedajlovic (2002).
2.2.2 Major changes in global trends

The case study took place during the 1990’s, the period when the retail industry was very much dictated by globalisation – Wal-Mart took a foothold in the European markets, the Dutch supermarket operator Royal Ahold bought a number of supermarkets in Poland, four rival chains in Spain, one in America and two in Argentina. France’s leading hypermarket, Carrefour, operated in 20 markets including Chile, Colombia, Indonesia, the Czech Republic and Japan. Tesco, Britain’s biggest food retailer began to set up shops in Asia. Promodès, another French hypermarket group, became the market leader in Argentina. Meanwhile, fast-growing clothes chains, such as The Gap, Sweden’s Hennes & Mauritz, and Spain’s Zara, were opening a branch in a new country every few weeks.

The first to enter the Asia market, in the mid-1990s, was Carrefour. America’s Wal-Mart, and other European giants such as Royal Ahold, Casino and Tesco soon followed. At first, it appeared that they would barely have to break sweat. Not only was there little direct domestic competition, but the powerful tycoons also suffered from the liquidity crisis. Tesco, one of the companies in the case study, for instance, bought a leading chain of stores from Charoen Pokphand Group (CP), the biggest conglomerate in Thailand. The traditional “wet markets” lost their domination in the Thai shopping scene. At the end of the decade, the retail industry in Thailand was dominated by modern channels such as hypermarkets and supercenters (The Economist, 1999).

2.2.3 Conclusions on the macro impacts on the case study

The following exhibit illustrates the evolution of the retail family groups in Thailand and their European partners.
Exhibit 23: Evolution of retail groups in Thailand compared to European retailers

The need for changes in the macro economic environment was reflected in the objectives of the local firms in Thailand. These included their motivation to enter into cross-border acquisition activities. For example, due to increasing global competition, local firms needed to seek partners who could support them with capital resources as well as with up-to-date management know-how. Western firms, on the other hand, needed local partners in order to gain access to good store locations as well as the established relationships with suppliers and local market knowledge.

The evolution of the retail sector discussed in the previous section will provide an understanding of the macro view in which the family firms in the case study operate.

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\(^{40}\) Author’s illustration.
D. The case studies

The following chapter presents the case studies of two family business groups in Thailand – Central and CP. First, the evolution of each family group is presented. Then, the individual acquisitions of retailing companies within the groups by foreign retailers are explained, starting from the pre-acquisition and ending with the post-acquisition phase. Finally, all cases are analysed according to the three main research variables (inter-partner fit, management of acquisition process, and acquisition performance).

1 Case One: Central Group

1.1 Evolution of Central Group

1.1.1 Family background

Central Group started as a small shop opened by Tiang Chirathiwat in 1927. In 1947, Samrit, the eldest son, persuaded his father and siblings to sell books and imported magazines. The first Central department store was opened in 1957. The importing business expanded to “Central Trading” and later to “CRC”. Over the years, CRC emerged as the leading retailer in Thailand and expanded into other business areas – wholesale, real estate, hotel and food services.

Samrit named the family’s shop “Central”, which was influenced by the political interests of his father, Tiang, who came from China. China’s powerful position in the region before World War II was under threat by foreigners, while the country itself was largely divided. As a result, the Chinese central government implemented a policy of centralising its diverse governing bodies into “Tong-Eing”,

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41 Central Retail Corporation
meaning “Central.” Samrit found the word “Central” to be meaningful and so later on chose this name for his store.

At the beginning of the nineteenth century, Tiang and his fellow Chinese who were characterised as the “one mat, one pillow” generation, migrated to Thailand where he built his first store. During this establishment period, the business profited from the steadily growing trade after World War I.

Like many big Chinese families at that time, the business was carried out by the first three sons – Samrit, Wanchai and Suthiporn. Samrit, being the eldest brother, established the original retail stores and expanded the group markedly after World War II, particularly during 1968-1992. Throughout this period, Central Group was considered to be among the first to modernise the retail trade in Thailand.

From his 26 children, Tiang’s family has continued into its fourth and the fifth generation with 170 family members in 2006 – 50 of whom take part in the management of the companies within the group. The members carry on the traditions as set out by Samrit. For example, all family members are to live in the same compound and eat together. They then use the dining table to discuss business. Due to these frequent contacts with each other, the Chirathiwat family is one of the tightest-knit families in Thailand and the family members are very much involved in their family business. Even though the family tried to create a clear separation between the family council and Central Group, all five businesses within the group are led by the family members.

Our second generation consists of 25 siblings. That adds up to 170 family members who are in the family council today. We have enough of a resource pool (Suthichart Chirathiwat, personal interview, 2006).

Central Group was for a long time a family affair managed solely by its family members. In 1995, the group brought in professionals and switched its orientation from focusing mainly on the family goal to more on the business goal. As Suthichart Chirathiwat recounted, “This was due to the fact that Khun Samrit was the head of the family, while all the family members supported him in business. Therefore, the business at that time was very much family oriented. After he passed away, the family felt the pressure to move away from family oriented business to professional business. The management role of the family council (Guanxi) was reduced, while the board of directors was established”. The three pillars which replaced the Guanxi system are presented in the exhibit below.

Exhibit 24: The three pillars of Central Group

Regarding the management and succession of the business group, Suthichart Chirathiwat explained that “Our principle is to first choose a manager from the family council (170 members). But the decisive criteria are the qualifications and performance. In case there is no qualified family member or a family member has underperformed, he/she will be shifted to another position in another business unit or take on less responsibility. The advantages of having family members taking responsibility in business is that, first, they know the business inside out having grown up with it. Second, no one can take our people from us because they are both managers and owners. The downside of this is that they cannot be fired.”

Suthichart Chirathiwat (personal interview, 2006)
Apart from the obvious family commitment of Central Group, the orientation of family members towards modernisation is to be noted. The first three sons of Tiang (Samrit included) were the only ones in the Chirathiwat family who were not educated aboard. Samrit made sure that his brothers began their education at the Assumption School in Bangkok and his sisters at Mater Dei School – both are private European Christian schools. This has led to all the family members being open to Western management philosophy.

It is a family tradition to send our sons to Assumption and our daughters to Mater-Dei or aboard, so that they are trained to be open-minded to modern technology and management (Suthichart Chirathiwat, personal interview, 2006).

These values play an important role in the development of Central Group later in its modernisation era as well as the decisions taken before and after its cross-border acquisition activities\(^{44}\).

1.1.2 The group’s structure

Central Group is organised into five diversified business groups (see Exhibit 25).

![Exhibit 25: Structure of Central Group\(^{45}\)]

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\(^{44}\) The family values lead to a shared future vision of the business and the family (Carlock & Ward, 2001).

\(^{45}\) Group annual report (2001)
Central Retail Corporation (CRC) is Thailand’s largest retailer and is at the heart of Central Group. With 74.2% of the group’s total income of 70,000 million Baht in 2001, it is the core business of Central Group. This is also the area where Central Group first started out in. In 1992, Suthichart Chirathiwat was selected as chairman of the business while his siblings took management positions. Local press often refers to the person who takes charge of the retail business as the guardian of the group’s heart (Saengthongkam et al, 2003).

In 1997, when this case study begins, Central Retail Group operated with revenue of 60,000 million Baht. The department stores Central and Robinson contributed 18,000 million Baht, Big C added 20,000 million Baht in sales and Tops came to 14,700 million Baht. Despite fierce competition, Central Group celebrated its largest expansion in this period. In 2001, the group was the largest retail trade operator in Thailand.

1.1.3 Situation during the acquisitions

In the third generation, Central Group was led by Suthichart (the eighth son from Tiang’s first wife) and Suthitham (the fourth son from Tiang’s second wife). This period saw a growing number of family members as well as the modernisation of the business. A family council was established to take care of the family members’ wellbeing while Central Group became more transparent in its corporate governance and used more Western strategic management concepts such as target customer segmentation.

In 1992, one year after being selected as the group’s chairman, Suthichart Chirathiwat pointed out the importance of market segmentation to his family members and announced the group’s strategy to participate in all retail segments. During this period, Central Group started to feel greater pressure as a

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46 70,000 million Baht is approximately 1,750 million USD.
consequence of the increasing competition of the global retail trade. Before, there were only Central Department Store and Japanese competitors who catered for the A-B retail segments in Thailand. This left a gap for European and American retail operators who entered the market and brought with them new retail concepts such as the supercenter, hypermarket and discount store.

For the customer segment A, we had Central Department Store. However, we were weak in the middle market segments B and C. This is also the case in the discount store segment and in food (Central family member\textsuperscript{47}, personal interview, 2006).

Following the group’s segmentation strategy, Tops Supermarket was established in 1992 as the group’s first category killer, focusing on the food supermarkets. Also in this period, Central Group opened the first Big C Supercenter in January 1994 in order to cater to the Thai customers in the discount store segment, with it expanding into the main provinces in Thailand.

Apart from the acceleration of its generic growth through investment in various retail concepts to cater to every customer segment, in 1995 Central Group also took over Robinson, a local retailer with the strongest position in Thailand’s provincial towns. While Central Department Stores cater to the higher segment, Robinson served the middle segment. The unification of the two biggest Thai retail operators was seen as an attempt by local retailers to fight the inflow of foreign operators. In 1997, the Thai currency was devalued.

In a sense, we were considered luckier than many other business groups because we had already had such a painful experience with the Thai Baht devaluation in 1981 and 1984. Having learnt from these past experiences, our foreign loans were not that substantial. The only event which required us to take out a foreign loan was the acquisition of the Robinson department store chain. Having said that, the deal still costed us 300 million USD (Central family member, personal interview, 2006).

\textsuperscript{47} Based on the basis of confidentiality, the names of the interviewees are not addressed here.
This resulted in the lack of liquidity needed for necessary business expansion. The crisis changed the group’s investment perception.

It used to be that we opened a company just when we wanted to. But now we close everything – leaving only the really necessary ones (Central family member, personal interview, 2006).

At the same period, the group faced increasing competition from foreign multinational retailers. Central Group realised that they need to adjust themselves to be more flexible. On 29 September 2000, 40 Central managers held a special workshop in Pattaya to brainstorm the group’s medium-term strategy. The management believed that Central Group would be facing fierce competition from both local as well as multinational retailers (such as Tesco Lotus, which were expanding rapidly at that time) over the next 5-7 years.

The next two sections present the cases of Central Group’s cross-border transactions in two of its companies: Tops Supermarket and Big C Supercenter.

1.2 Case 1a: Tops and Royal Ahold

1.2.1 Pre-acquisition process

*Drivers of the deal*

After Central Group took over its main local competitor, Robinson, it had a high debt level. To increase the investment capability, Suthichart Chirathiwat, the group’s CEO, decided to sell 49% of its supermarket shares to Royal Ahold and renamed the holding CRC Ahold in 1997. The partnership with Ahold was seen as an important change in the strategy of Central Group. Before the partnership, the group was known for its position against foreign retailers. But with the increasingly competitive environment from 1994 onwards, the group realised that they had to cooperate with foreign retailers.
We cannot stick with an ideal (to not selling majority shareholding). The reality is that we need to survive by remaining profitable. If there is a way (for example, a foreign partnership) to increase sales and profitability, we need to be flexible. We need to change according to the changing customer needs and competitive environment (Central family member, personal interview, 2006).

The move to cooperate with Ahold was seen as a compromise in order to achieve Central’s target to excel within all market segments, including through its supermarkets. The Dutch retailer held expertise in supermarkets, especially in the food section within the supermarket which was one of Central’s weaknesses. CRC Ahold then moved in to take charge of operating Tops Supermarket. By such partnership with Ahold, Central Group has gained expertise within the food segment. Moreover, the group used the cash derived from the sale of its 49% shares to Ahold to finance the expansion of Big C.

To improve our competency in the food segment, where we had little expertise, we teamed up with Royal Ahold to operate the supermarket space on the ground level of the department stores (Central family member, personal interview, 2006).

Not only was Central able to benefit from Ahold’s know-how, but proceeds from the sale also allowed the group to further invest in the discount-store segment, where competition from international players started to intensify.

*The due diligence process*

During the due diligence procedure, Central Group looked at different operations within the Royal Ahold Group. These included Stop & Shop, Edwards, BI-LO, Finast and Tops Supermarket. Together with the management, Suthichart chose Tops because of the short, easy-to-remember name.

The most important goal of the due diligence was to create confidence (trust) in the foreign partner. As a result, Central put much of its focus during the process on the analysis of Ahold’s existing business and track record.
Ahold had 100 years experience and Albert Heinz was a well-known figure in retail trade (Central management executive, personal interview, 2006).

The Dutch retailer Royal Ahold started off as a shop in a small town Ootzaan. Albert Heijn, son of the owner, took over the business in 1887. After World War I, he expanded the business to 50 shops across the Netherlands and to 250 shops after World War II. Shortly the company was made public in 1948, it further expanded to become Holland’s number one retailer. It also expanded into spirits and cosmetic retail in 1973, while changing the name to Ahold in order to reflect its broader scope of businesses. For its 100th anniversary in 1987, the company was given permission to add the prestigious word “Royal” (Koninklijke in Dutch) to its name.

After success in its own country, Ahold expanded to the USA, Eastern Europe and Portugal. The company first showed it interest in Asia in 1996 by entering into a joint-venture with Kuok Group to operate retailing activities in Singapore and Malaysia. In 1997, it joined Central Group with 49% shareholding to operate 32 supermarkets in Thailand under the name Tops Supermarket. At the same time, Ahold increased its engagement in Latin American markets.

As the Asian economic crisis worsened in 1998, Central decided to “lease” the remaining 50% of its shares in Tops Supermarket with the condition that it has the right to buy back those shares within eight years.

1.2.2 Post-acquisition process

The first impression

The Central-Ahold partnership in Tops started as a joint venture in 1997. Since the shares were held equally, there were two CEOs (Wallaya Chirathiwat as CEO in finance and purchasing and Tom Denhertog as CEO in operations). When
Central leased the remaining 50% shares to Ahold in 1998, the top management became all foreigners while the director/manager levels were all Thais. At the board of directors, the Ahold:Central ratio was 8 to 2.

At the start of the partnership in 1996, the deal was seen by family members and top management as a good opportunity.

Our management viewed the joint venture of Central and Ahold in Tops Supermarket as an opportunity to gain know-how from Ahold, particularly in the food sector where Central lacked expertise. Later in 1997, Ahold acquired the majority share in Tops Supermarket\(^{48}\). This was due to Central’s financial needs (Central management executive, personal interview, 2006).

It was a win-win situation. Most foreign retailers entering new markets are unknown to suppliers and customers. Building trust takes years (Central family member, personal interview, 2006).

Apart from the initial optimism about the deal, employees’ expectations on organisational culture were also viewed as positive.

If this had been a domestic acquirer, we would have thought that the partner had the same to offer. Now that it is a foreign firm, our initial perception was that we clearly possess different strengths (Central management executive, personal interview, 2006).

\textit{Managing the acquisition process}

The transitional phase took two years (1997-1999), the period when Tops Supermarket expanded from 38 to 83 locations across the country. The change process was led by a team from Ahold and limited at the management level. The management team was sent to Ahold’s headquarters in the Netherlands for 6-month training. Moreover, a team of “flying consultants” from the USA was sent to

\(^{48}\) Central-Ahold ownership ratio changed from 51:49 to 0:100.
Thailand to advise Tops employees at the manager and the director levels. The team consisted of 6-7 people from Stop & Shop, Ahold’s subsidiaries in the USA. Each team rotated with a term of six months.

The main feature of the change implemented by Ahold was to implement the measurements and systems, which were more objective than previously. The Thai management was introduced to the idea of the key performance index (KPI) whereby clear and measurable objectives and executions are required to be reported weekly. Also, the management information system (MIS) was installed at all levels.

Moreover, orientation to develop employees’ soft skills, such as thorough the Hay system and cross-cultural training were also carried out. At the shop level, the major change was seen at the “shop front” which was given a more modern look.

During the changes, there appeared to be some resistance from local management. As one manager at Central put it, “There was a culture clash because there were simply too many changes. Many employees quit because they could not cope with the pressure of constantly having to be measured and to catch up with the new systems. At the same time, there were a lot of new recruits. So the employee turnover was quite high.”

There were a lot of changes because they’d think that they were superior to us. Many old employees felt the pressure to catch up with new systems imposed by Ahold (Central management executive, personal interview, 2006).

In the view of another Central management executive, “Do not change all the management because they possess valuable local knowledge. And business was good already. The only thing we needed was finance and technology, not new management.”
1.3 Case 1b: Big C and Casino Group

1.3.1 Pre-acquisition process

Drivers of the deal

Big C Supercenter was created in 1994 according to Central Group’s ambition to cater for the C and D customer segments. The concept turned out to be highly successful and the Supercenter was floated on the Thailand Stock Exchange in 1995. Supported by funding from Central Retail’s sale of shares to Ahold in 1997, the group was able to open Big C discount stores in all major cities of Thailand and contributed to 33% of Central Retail’s annual sales within 4 years of its establishment. During the critical period between 1995 and 1996, Central also decided to partner with the foreign operator Carrefour by setting up the company Cencar with 800 million baht capital, which the group held 40%.

With Carrefour, we only held shares but did not get involved in the operation. This is because of the fact that we were focusing on Big C (Central family member, personal interview, 2006).

The Asian economic crisis resulted in the worsening liquidity of Central Group. Even though the group did not have many foreign debts, local banks were under pressure to not give out loans as easily as they used to do. The group needed only to keep its main businesses. Big C’s projects were halted. In order to keep injecting funds towards the growth of its cash cow Big C, Central Retail was in search of a partner to solve its liquidity need.

We negotiated with many partners such as Wal-Mart and Carrefour, but ended up with the Casino Group from France because we felt that they are the fairest (Central family member, personal interview, 2006).

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49 60,000 million Baht or approximately 2,000 million Swiss Francs.
Besides the liquidity squeeze, competitive pressure seemed to be another important driver which led to the selling of shares.

Central viewed Casino’s offer to buy shares in Big C Supercenter as a good opportunity. Once we learned that the global retail operator Tesco approached our competitor Lotus, we felt the competitive pressure. This is a business in which financial strength is a key success factor. This, together with the increasing financial pressure, drove us to look for a strategic partner (Big C management executive, personal interview, 2006).

**The due diligence process**

According to a family member, the due diligence process took two years (1997-1999). Samrit’s eighth son, Tos Chirathiwat, helped his uncle lead the negotiation process.

It did not take very long time discussing the deal with Casino. We first offered the opportunity to Carrefour to buy the shares in Big C because we had already worked with them before. However, we did not reach an agreement with them due to the fact that many Carrefour and Big C stores were at the same locations. We spent much more time with Wal-Mart, but could not accept their offers because we found they did not make good business sense to us. In 1999, therefore, we decided to sell 66% in Big C to Casino Guichard-Perrachon leaving us with only 13-14% shares (Central family member, personal interview, 2006).

The trust was created by the Casino's existing business and track record:

To create confidence (trust) in the foreign partner, we looked at their existing business and track record. The reputation of Casino was good. This is important because it has positive impact on creditors and international suppliers (Big C management executive, personal interview, 2006).

The retailer Casino Guichard-Perrachon dates back to 1889 when Geoffroy Guichard was married with Antonia Perrachon, a daughter of a shop owner in
Saint-Etienne. Three years later, Geoffroy took over the business of his father-in-law and changed the name to “Casino”. In 1898, the shop was transformed into a company called “Société des Magasins du Casino.” Two years later, in 1900, it went public and expanded to 100 branches in 1904. The company continued to grow. During World War I, Casino had 215 shops with 50 in Saint-Etienne. However, the aftermath of World War II left Casino with 70 shops demolished and another 450 partly destroyed. The company recovered and entered its modern era in 1960 by opening a supermarket and later a hypermarket in 1970 to compete with its main competitor Carrefour. In 1976, it expanded to the USA, but then turned its attention back to France in 1985 to continue building its hypermarket empire against Carrefour.

After more than a ten-year break, Casino resumed its international expansion plans in 1998, entering Latin America and Asia. In 1999, Casino came to Thailand by offering to buy 66% stake in Big C Supercenter in order to increase the local company CRC’s liquidity power to expand. During the same period, Casino continued to expand in Asia including the Philippines. To date, Rallye SA is the 60% major shareholder of Casino Group, while the original Guichard family have only 9%.

Casino’s strategy has always been to hold the majority stake of the acquired firms, so that it has management control. As in this case, Central Group sold 66% of Big C shares to Casino Group in 1999, while transferring management responsibility to them. Before the crisis, Central Group held a 33% share in Big C, while it came to 13% afterwards.

One of Central Group’s conditions in selling its shares to Casino was that the company keeps the existing employees.

The agreement was reached, based on the condition that the company remained public and most of its employees stayed (Big C management executive, personal interview, 2006).
1.3.2 Post-acquisition process

The first impression

The acquisition was seen by Big C employees as positive:

Since hypermarkets such as Big C compete with volume – gaining economies of scales is crucial to business success. Therefore, having the financial strength to allow constant expansion of the subsidiaries is important for Big C (Big C management executive, personal interview, 2006).

One of the first agreements made concerned the management structure of Big C. Casino held 66%, Central 13%, and other shareholders 21% while the board of directors comprised 13 from Casino, 7 from Central and 3 independent directors. The CEO was from Casino, while the CFO came from Central.

Managing the acquisition process

The acquisition process concentrated at the management level. There was no obvious organisational change at the lower levels. However, employees experienced more requirements in their daily operations.

There were noticeably more reporting and more high-technology systems (Big C employee, personal interview, 2006).

According to the Big C management, there was a regular change of management team while the representatives from the parent company came for visit four times a year. Even though the constant changes in the management could be considered as risky, they did create a good opportunity to transfer the expertise when good management came.

It is important to note that even though the changes were led by Casino, the process was more supportive than imposing:
Casino people came to see what we needed. Big C had been doing well. We did not have operational problems, only financial ones. Also, retailing is the people business. The two most important ingredients to success are local knowledge and people. The only things we needed support in were finance and technology, not management (Big C management executive, personal interview, 2006).

Casino appeared to follow the wishes of Central’s management as the most obvious changes were mainly seen in the increasing high-technology systems: “Even in the operational level, they saw that our clothing department was already good, so that did not change,” commented one manager. Another Big C executive added, “Unlike the Dutch (Tops), who seemed to be very professional, the French (Casino) management style was more accommodating. This was what Big C needed because our customers are from the lower income group. As a result, we didn’t need to be so professional and appreciated that Casino did not try to change our culture.”

There was not much culture clash because French culture is pretty similar to Thai’s. Also, it seemed that the French (Casino) was blended rather than imposed (Central family member, personal interview, 2006).

Ahold imposed their way and did not listen to us. Casino Group, on the other hand, listened to us and that worked out quite well (Central family member, personal interview, 2006).
2 Case Two: Charoen Pokphand Group

2.1 Evolution of CP Group

2.1.1 The group’s background

The family “Jierawanont” or “Jie” moved to Thailand when Exo Jie, the father of the current chairman of the group travelled from the Guangdon province in China in order to sell vegetable seeds in the year 1921. In Thailand, he opened a small shop called “Jie-Ti” (which means “straight”, implying straightforward and honest) to sell good quality seeds and agricultural equipment.

Later, in the second generation of Jierawanont family, the two big brothers Jaran and Montri expanded into the animal food and medication businesses establishing CP (Chareon-Pokapan) Company Limited which later became CP Group. After graduating from business vocational studies in Hong Kong at the age of 19, the fourth son Thanin came back to take over the managing responsibilities from his older brothers. Under him, CP Group expanded to 300 companies in 30 countries and employed 80,000 people as of 2001. The organisational culture of CP Group reflects the founding family values, some of which were extremely innovative in Thailand at the time.

Focus on quality:

During the establishment of CP, the agricultural industry in Thailand and the region was still at a novel stage. Many firms exploited the unregulated market

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50 Thai name.
51 Chinese name.
52 At that time Thailand was still called Siam.
environment by mixing other substances into their animal food in order to increase quantity. But Exo Jie told his sons that they, on the other hand, will stick to quality: “CP produces animal food not for puppies or gold fish lovers. Our customers are farmers. If they cannot survive because their animals are not healthy, neither can we.” With the focus on quality, Jie-Ti became successful within a short time not only in Thailand, but also in Malaysia, Singapore, Hong Kong and in Jie’s motherland China.

Focus on technology:

In order to maintain the high quality while keeping the price not too high for the farmers, CP decided to produce the feed in high quantities. At the beginning of his chairmanship in the group, Thanin imported high-tech machines from Müller, Switzerland. Because of this, CP was able to offer high quality animal feed at reasonable prices and became the leading supplier for Thai farmers within a short period of time.

CP likes to find new opportunities, but will enter into neither “crowded” industries nor new businesses which the group does not have expertise in. After the success of the convenience store 7-11, in which the group gained expertise from a Japanese partner, CP sought to become a bigger operator in Thailand’s retail industry. CP bought the local Sunny Supermarket and then opened Foodland, where the group brought in the management as well as the operation know-how from Seiyu Japan (CP management executive, personal interview, 2006).

Focus on core business:

Thanin believes that it is necessary for the core business of CP Group, which is in agriculture, to be strong before undergoing expansion into other businesses. To protect its core business, CP divested its non-core as well as the troubled companies.
Agriculture has always been the heart of CP Group. From there, values are added to transfer into other businesses such as food and retail (CP management executive, personal interview, 2006).

**Focus on empowering people:**

Contrary to the practices of many family business groups in Thailand, CP Group doesn’t bring in family members to manage existing business, but uses external professionals.

CP Group doesn’t need to place family members into already successful businesses. These businesses are successful because good managers are there and they should be encouraged to pursue the good work they are doing. For the able family members, we can afford to give them the resources to build new businesses. This way, they can build the name for themselves and CP can extend its empire. For the not-so-able ones, we prefer to hire them to do nothing (Thanin Jierawanont, as quoted by Vorabandhit, 2004).

Apart from the use of external professionals for business success, Thanin also addressed the succession needs:

No matter how large a business is, it can only last 3-4 generations if the business is only in the hands of family members. The great grandchildren will become musicians or scientists and do not want to suffer working like their ancestors. Look at Mitsubishi for example; you do not even see a trace of the original owner in management anymore (Thanin Jierawanont, as quoted by Vorabandhit, 2004).

**Combine eastern with western management styles:**

Despite the focus on new technology and decentralisation of the decision-making process, CP is well-known as a practitioner of the old Chinese sciences such as *feng shui*. In new businesses, Thanin has always applied the concept of Guanxi and connections as they allow more flexibility. Moreover, he also believes
in getting cooperation from governments by supporting political parties and the economic agendas of the governments. On the other hand, Thanin also believes in transparency and corporate governance.

The smaller the business, the more it belongs to the family. The larger the business, the more it belongs to society. Therefore, large business should be very transparent. For example, if accounting is not transparent, no one will dare give a loan to that business (Thanin Jierawanont, as quoted by Vorabandhit, 2004).

The belief in *feng shui* started during the first period of the chicken industry in Thailand (1963-1971). At that time Thanin was convinced that without a prosperous chicken industry, his family business would not be able to survive in the long run. He set a personal goal to find a technique which enables one farmer to raise 10,000 chickens and for each of them to gain 1.5 kilos in bodyweight within 8 weeks. After ten years of unsuccessful experimentation, Thanin’s brother urged him to give up. A customer of Thanin advised him to see a *sin-sae* (a Chinese teacher of ancient sciences). The *sin-sae* looked into his astrology and ensured him that he would succeed but that he should be patient. Moreover, he reminded him of the concept of *feng shui* (wind-water) which was traditionally used in the construction of houses. Here, he pointed out to Thanin its applications in raising chickens, with the need for good ventilation and enough clean water. After the visit, Thanin constructed a chicken coop according to the advice and success later followed. Since then, CP has followed a principle of combining Eastern with Western management styles. Until recently, the group’s recruitment process combined the modern ability test with *ngow-heng*, the traditional Chinese art of physiognomy.

There is no need to act against the traditional sciences. If it does not create big controversy, why not take them into account just for peace of mind? (Thanin Jierawanont, as quoted by Vorabandhit, 2004).
Today, CP Group has four business areas – the agribusiness and food industry, retail and distribution, telecommunication and multimedia services, and others\(^{53}\). The main focus of the group has been agribusiness and food. Retail, logistics and distribution services were set up in order to decrease the dependency of CP food products within the supply chain. After domestic success, CP has also followed a strategy of expansion overseas, primarily to China. The following exhibit shows the structure of CP Group.

Exhibit 26: Structure of CP Group\(^{54}\)

### 2.1.2 Local acquisitions

As part of the group’s business diversification from its core agribusiness and food industry into the value-added retail trade, CP entered into the retail business with the convenience store 7-11.

CP likes to find new opportunities, but will not venture into new business without expertise. After the success of the convenience store 7-11 with the franchise from Japan, CP moved to operate through a bigger retailer by buying the locally-owned Sunny supermarket. Similar to the case of the 7-11 convenience stores, CP entered alliance with Seiyu Japan for the management and operational know-how (CP management executive, personal interview, 2006).

\(^{53}\) Other businesses of the group include petrochemicals, real estate, automotive and e-procurement.

\(^{54}\) Group annual report (2001)
The willingness of CP to learn from its foreign partner has always been obvious:

We sent people to train in Japan and asked them to make full use of the know-how they obtained, for example, how to cut the meat. Moreover, we hired Japanese as the heads of operational management while the Thai managers were placed as the heads of back office functions (CP management executive, personal interview, 2006).

In the meanwhile, CP opened a further three branches of Sunny Supermarket. After gaining some experience in the supermarket business, CP moved on into the larger sized hypermarket business. The group opened the first Lotus Supercenter in 1996 and achieved clear success within the first year. To gain expertise in the retail trade, CP hired an external consultant from Wal-Mart specializing in operation management, especially merchandising, shelf-space management, and commodity products.

CP believes in foreign expertise, but with local adjustment – not all know-how shared by consultants is applicable to the Thai market. For example, Lotus Supercenter decided not to use the barcode system because, unlike US vendors, the suppliers in Thailand were not ready to invest in this new system (CP management executive, personal interview, 2006).

The following case study investigates the cross-border acquisitions related to Lotus Supercenter.

2.2  Case 2a: Lotus and Tesco

2.2.1  Pre-acquisition process

Drivers of the deal

Similar to the case of Central, CP was in need of liquidity:
The economic crisis in 1998 forced Lotus Supercenter to halt its new branch openings because of a shortage of liquidity. We needed to save our core business in agriculture. Therefore, we needed to find partners who could help us financially in our non-core activities, for example, we sold Telecom Asia to France Telecom. At CP Retail, we first attempted to internally cut costs in order to temporarily solve the immediate liquidity problem, but later decided to sell Lotus Supercenter to Tesco outright (CP management executive, personal interview, 2006).

This decision has very much to do with CP corporate culture, following the Chinese proverb – do not enter into a battle one cannot win.

If we cannot win the retail war in Thailand, we’d better move our resources elsewhere where we have a chance to win. We needed to save our core business, so selling the non-core ones seemed to be a viable option. After we become strong again, we can always buy them back (CP management executive, personal interview, 2006).

According to one CP executive, CP’s need of liquidity was aligned with the strategic intentions of its partner. At that time, Tesco was among the top three retailers in the UK. However, growth at home was stagnant. Therefore, Tesco set a goal to expand eastwards first to Eastern European countries (Czech Republic, Poland and Hungary) and then to Asia. Another driver was the devaluation of the Thai currency. This meant that Tesco could buy CP Lotus at a much cheaper price than before the Asian crisis. With these two reasons combined, Tesco was greatly interested in CP’s offer.

Apart from these factors, local knowledge also seemed to be an important driver in the acquisition by the UK-based retailer.

Having stores in good locations is one of the most important success criterions in the retail industry. With relatively little knowledge about good store locations, foreign operators needed the expertise in location sourcing as well as the existing locations already occupied by the local partners (CP management executive, personal interview, 2006).
The due diligence process

Soonthorn Arunanontchai, CEO of Lotus Supercenter at that time tried to contact retailers directly in Europe through CP’s trading office in Belgium:

Many made offers, but they were considered rather unfair. We chose Tesco based on their acceptable offer (CP management executive, personal interview, 2006).

Trust was created by the fact that both were public companies, thus, information was readily transparent on both sides. Another factor which strengthened the trust in Tesco as a partner was its commitment. At the time of Soonthorn’s visit to the UK for the deal negotiation, Tesco was one the UK’s top three retailers. Tesco showed its commitment by promptly hiring cross-border acquisition consultants to settle the deal.

With sales of £37 billion in 2005, Tesco took its place as the world’s third-largest retailer, after America’s Wal-Mart and France’s Carrefour (The Economist, 2005). The company was founded in 1919 by Jack Cohen when he began to sell surplus groceries from a stall in the East End of London. His first day’s profit came to £1 and his sales reached £4.

Tesco’s strategy for growth is to focus on 4 areas: to grow in the core UK market, to expand by growing internationally, to be as strong in non-food as in food and to follow customers into new retailing services. Since the mid-90s, Tesco has been investing in new markets overseas, seeking out new opportunities for growth and ways of generating long term returns for shareholders. In 2007, the group was operating in 11 markets outside the UK, in Europe and Asia. Over 100,000 employees work for the company with over half of the group’s space outside the UK.

Tesco’s main approach in its international expansion is to be flexible. The company’s underlying assumption is that each market is unique and requires a
different approach. This value has translated into the will to act locally – local
customers, local cultures, local supply chains and local regulations require a
tailored offer delivered by local staff. In Thailand, customers are used to shopping
at traditional wet markets, interacting with vendors and rummaging through piles of
produce to choose what they want. Rather than adopting the Western approach of
neat packaging and convenient portions, Tesco’s stores in Thailand try to meet
local customers' expectations.

2.2.2 Post-acquisition process

The first impression

According to the Board of Investment, Thailand’s regulations governing foreign
ownership generally limit foreign shareholdings to no more than 49%. There are a
few exceptions when foreign companies are allowed to have majority ownership,
for example, when the target company does not belong to the protected industries
and the foreign acquisition of majority shares is the only measure to hinder the
financial troubles of the local firm (Sathit Sirirankamanont, personal interview
personal interview, 2006).

In this case, CP applied for Tesco to hold 99% because Tesco demanded
majority management control. Moreover, the UK-based firm also required that the
chief executive officer (CEO) of Lotus Supercenter be British, replacing Narong
Jierawanont. Also, the directors of important departments such as financial and
purchasing were to be from Tesco. The less important ones, such as the logistic
director, were still held by the existing local management.

At the beginning of transition, there were ten people from each side,
including Narong Jierawanont and Soonthorn Arunanontchai. Later,
when the transition was completed, only two senior staff was left
representing CP. The rest came from Tesco, with only Narong and
Soonthorn left (CP management executive, personal interview, 2006).
Managing the acquisition process

From the beginning of the acquisition process, the commitment of CP’s top management was obvious. After the official announcement of the acquisition of Lotus by Tesco, the Thai CEO, Narong Jierawanont, promptly organised a meeting to ensure the staff that the deal was a positive move and that the employees’ jobs were safe. Apart from swiftly opening communication channels with the employees, Narong also conveyed an optimistic view of the deal. One CP management executive quoted Narong saying, “They (Tesco) have good intentions and our employees’ jobs are secured.”

Similarly to Central Group, the stakeholders in the acquisition process of Tesco-CP were mainly those in the management of Lotus. The heads of departments were asked to organise meetings within their own departments. In addition, the Human Resource (HR) department of CP actively took on the roles of middleman and adviser to employees during the change process.

In the change process, management and HR played an important role in moderating (CP management executive, personal interview, 2006).

During the initial one-year transition period, there was no change. During this time, Tesco merely sent people to observe us and learn by research on local management styles and on the behaviours of Thai customers. There seemed to be a lot of ideas exchanged between the two parties at the beginning.

We took turns at being teacher – student, trying to balance the old vs. new ways (CP management executive, personal interview, 2006).

The real changes became more obvious during the trial period. Tesco invited CP management to attend various training in the UK in order to develop their core skills. Like in the Central-Ahold case, orientation towards results and the key performance index (KPI) were the main issues. In addition, the concepts of RACI (responsibility, accountability, consulting and informing) and corporate governance
were introduced and enforced. Another concept of structure and efficiency in meetings became the focus of the Tesco-led changes. For the first time, the local managers at CP Lotus were asked to conduct meetings using agendas as well as defining the meeting time and responsible persons. Moreover, Tesco hired external consultants to implement the Hay Project, where Lotus employees were asked to write their own job descriptions and were evaluated accordingly. Many concepts introduced by Tesco were novel to Thai management at the time:

The use of external consultants was a new concept to us. For Thai managers, having to seek external help would mean accepting that they could not do a good job (CP management executive, personal interview, 2006).

Towards the end of the integration process, Lotus adopted much of Tesco’s management approaches. At the end, the management style changed towards the British way, with greater focus on people as well as marketing and merchandising. This was seen from the example of the use of barcodes in the vendor management of Lotus.

In 1996, CP opened the first Lotus Supercenter. The hypermarket had already shown success in just one year. CP hired a consultant from Wal-Mart, L. Johnson, an expert in operation management, especially in merchandising, shelf-space management, and loss-leader commodity products. Even though we relied heavily on his expertise from the US market, there were some local adjustments. For example, we did not use barcodes like in the US because the Thai vendors were not ready at that time. When Lotus took over the management, they forced the vendors to adopt the barcode system (CP management executive, personal interview, 2006).

Despite the many changes enforced by Tesco during the trial period, there was no obvious culture clash in the beginning because the old management was kept during the transition period. “Employees were allowed enough time to learn and adapt,” commented one CP management executive. Another manager added, “There were cultural differences, but no clashes. Most people did not take the cultural differences negatively and viewed the changes as positive because these changes were opportunities for their career development. The obvious changes in
the view of CP employees were: (1) People focus by empowerment, fair, celebrating success, providing tangible benefits, for example, stock options, (2) Training, and (3) Communications. Clearly, these are things that people see as opportunities. Therefore, it was not surprising that CP employees willingly accepted these changes introduced by Tesco.

3 Comparison and analysis of cases

The following exhibit summarises the major characteristics of the three acquisition cases involving Central and CP Groups.

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
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<tbody>
<tr>
<td>Type</td>
<td>Supermarket</td>
<td>Hypermarket</td>
<td>Hypermarket</td>
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<tr>
<td><strong>Thai-Foreign shares:</strong></td>
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<tr>
<td>Before 1997</td>
<td>51 vs. 49</td>
<td>51 vs. 49</td>
<td>100 vs. 0</td>
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<tr>
<td>In 1997-2001 (Asia crisis)</td>
<td>0 vs. 100 (leased 50)</td>
<td>13 vs. 66</td>
<td>8 vs. 92</td>
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<tr>
<td>In 2004</td>
<td>100/0</td>
<td>13 vs. 66</td>
<td>0 vs. 100</td>
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<tr>
<td><strong>Partner's core-business:</strong></td>
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<tr>
<td>Thai partner</td>
<td>Retail</td>
<td>Retail</td>
<td>Agriculture</td>
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<td>Foreign partner</td>
<td>Retail</td>
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Exhibit 27: A summary of major characteristics of the acquisition cases

Central Group and both of its foreign partners have retailing as their core businesses. Each of the partners started their own business empires from small shops. However, there are two subtle differences. The first difference is the diversification level of the business groups. Central Group has expanded not only in its retailing core-business, but also into other businesses (real estate and hotel).

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55 Author’s illustration.
This diversification is seen as a result of the less institutionalised environment in Thailand, forcing most business groups including Central and CP Groups to diversify their risks by venturing into various industries. Both Ahold and Casino, on the other hand, have focused mainly on retailing and have expanded the business beyond their borders.

Another difference is Central Group’s family tightness. The level of family involvement is apparently higher in the case of the Thai family group than that of its foreign partners as well as CP Group. This level, however, reduces gradually over time. An important factor could be due to the different stages of families. The Dutch and the French partners were already in their third/fourth generation when entering the cross-border acquisition transactions, while Central Group was only in its second/third.

Another observation is the fact that Tops was set up initially as a joint venture between Central and Ahold. Later during the Asia economic crisis, Ahold acquired majority shareholding. On the other hand, Big C, like Lotus, entered partnership with the foreign partners by selling the shares of the existing business.

The following sections present the comparative results of the three cases by adopting the data collection and analysis process identified in the research methodology (section C 1.6.1). First, the interview scripts from all three cases were encoded. Second, each script was grouped according to its relevancy to the variables which had been pre-identified in the dissertation-guided framework. Finally, the results of the cases were compared. It is important to note, however, that the results presented in the following sections are by no means the exact empirical findings. This is due to the limited number of samples. Nevertheless, the findings should provide useful guidelines for further discussions.
3.1 Fit between the partners

The first set of variables to be verified are those representing the four aspects of inter-partner fit. These include (1) objective fit (2) synergy potential (3) fit between resources and control (4) cultural fit.

3.1.1 Objective fit

Inter-partner fit in terms of founding objectives was identified by asking the following questions: What were the rationales of the partners in establishing their partnership? How did the firm view the acquisition offer – as threat or opportunity? The following abstract outlines the objectives of the local firms in their acquisition activities. The related factors within the partners’ objectives fit are identified and highlighted.
Abstract of the firm-level interviews:

“Our management viewed the joint venture of Central and Ahold in Tops Supermarket in 1996 as an opportunity to gain know-how from Ahold in particular in the food sector where Central lacked expertise. Later, in 1997, the joint venture turned out to be Ahold’s majority share acquisition. This was due to Central’s financial needs.” (Central Tops management executive)

“Central viewed Casino’s offer to buy shares in Big C Supercenter as a good opportunity. Once we learned that the global retail operator Tesco had approached our competitor Lotus, we felt the competitive pressure. This is a business in which financial strength is a key success factor. As a result, we tried to look for a strategic partner.” (Central Big C management executive)

“We needed to save our core business, so selling the non-core ones seemed to be a viable option. After we become strong again, we can always buy them back.” (CP Lotus management executive)

“The economic crisis in 1998 forced Lotus Supercenter to halt its new branch openings because of the liquidity shortage. We needed to save our core business in agriculture. Therefore, we needed to find partners who could help us financially with the non-core ones, for example, we sold Telecom Asia to France Telecom. At CP retail, we first attempted to cut costs internally in order to temporarily solve the immediate liquidity problem, but later decided to sell Lotus Supercenter to Tesco outright.” (CP Lotus management executive)

**Identifying the related factors:**

Objectives of Thai partners - financial, management and technological know-how, upgrade suppliers’ technology.

Objectives of foreign partners - business growth, local market penetration/ market share, profit.
Objectives of Thai partner

Due to the increasingly sophisticated competition in the Thai retail trade, local operators such as Tops, Big C, and Lotus needed to seek out foreign partners who could share their technological and management know-how.

Another main objective in selling their shares was the local firms’ need for financial support. This is due partly to the tough competition which requires superior financial strength. These financial needs were an impact of the lack of liquidity of the Thai retailers who took out loans during the fat years, including foreign loans. Once the Thai currency was devalued in 1997, the firms were severely short of liquidity and needed partners to support them financially.

Objectives of foreign partners

Limited growth opportunities in their home markets seemed to be one of the key driving forces of the European retailer to expand internationally by means of acquisition. France, Thailand and South Korea, for instance, have roughly similar populations. But in 1996, France had 1,100 hypermarkets, whereas Thailand had only 77, and South Korea 96. Another factor which strengthens the growth prospect of these multinational players in Asia is the general lack of planning law in the emerging markets. French retailers, such as Carrefour and Auchan, went into the emerging markets to escape the constraints of planning law (The Economist, 1999).

Macro-level interviews also support the findings at the firm level. When asked to reveal the objectives of Thai firms involved in cross-border acquisition activities, the experts cited financial reasons, strategic rationales such as the spinning off of non-core businesses, and technology and market know-how.
Inter-partner fit in terms of driving objectives are summarised in Exhibit 28. All three cases showed a high level of objective fit. However, it is important to note that CP’s decision to let Tesco acquire their shares in Lotus was mainly driven by the fact that CP wanted to save their core-business in agriculture from a liquidity crunch. Central, on the other hand, agreed to sell their shares in Tops and Big C to Ahold and Casino respectively in order to save the group’s core business in retail trade.

Abstract of the macro-level interviews:

“Many Thai firms are involved in cross-border acquisition activities due to financial reasons. Over the years, we have also seen local firms act increasingly on strategic rationales, for example, the spinning off of non-core businesses.”
(Dr. Kongkiat Opaswongkarn, cross-border acquisitions specialist, personal interview, 2005)

“Local companies are motivated to get foreign direct investment mainly by the possibility to gain technological know-how and, in the case of manufacturers, the opportunity to export the goods to the home markets of their foreign partners.”
(Sathit Sirirankamanont, Thailand’s Board of Investment, personal interview, 2005)
At the beginning stage of the partnerships, the Thai partners seemed to be driven by the gain in management and technological know-how from their foreign partners. Later on, as the economic crisis put the Thai firms into a liquidity crunch, the relationship between the local and foreign partners shifted from “strategic partner” to “acquired-acquiring” firms. On the other hand, the objectives of foreign companies appeared to be the same from the beginning to the end. Their aims were clearly driven by business growth, local market penetration as well as market share, and profit.

### 3.1.2 Synergy potential

A general question was used to assess synergy potential and find the distinctiveness between the partner’s contributions: What were the expected resources contributed by each partner?

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56 Author’s illustration.
Abstract of the firm-level interviews:

"Having the stores in good locations is one of the most important success criterions in the retail industry. With relatively little knowledge about good store locations, foreign operators needed expertise in locations sourcing. In fact, they were better off operating at the existing locations already occupied by the local partners." (CP Lotus management executive)

“Most retailers entering new markets are unknown to suppliers and customers. Building trust takes years.” (Central family member)

“Since hypermarkets such as Big C compete on volume, gaining economies of scales is crucial to business success. Therefore, having financial strength to allow constant expansion of the subsidiaries is important for Big C.” (Central Big C management executive)

“If this had been a domestic acquirer, we would have thought that the partner had the same to offer. Now that it is a foreign firm, our initial perception was that we clearly possess different strengths.” (Central Tops management executive)

Identifying the related factors:

Resource contributed by Thai partners - good store locations, existing relationship with suppliers, local contacts and political connection, local market knowledge to cater to local tastes.

Resources contributed by foreign partners - financial strength, technological know-how.
As presented above, resources were examined along the critical functional areas of the retailing business, such as access to good store locations, relationship with supplier, local market knowledge, financial contribution, and technological and managerial know-how. The following outlines the types of resources contributed by the Thai firms as compared to their foreign partners.

**Resources contributed by Thai partners**

Good store locations: having good location is one of the most important success criterions in the retail trade. With relatively little knowledge on local store locations, foreign operators needed both expertise in finding good locations or simply use the existing locations already occupied by the local partners.

Existing relationships with suppliers: another crucial success factor in retailing is the economies of scale. In order to achieve this, big foreign retailers need to rely on the already established local names. Meredith Prichard, JP Morgan’s Latin American retailing analyst, argued that Procter & Gamble’s priority in, for example Brazil, is not Wal-Mart, but CBD, the country’s biggest retailer. “P&G’s managers negotiate locally, their goods are made locally and their internal targets are local,” she added. In time, worldwide contracts will become more widespread, but for now the suppliers cater to local retailers (The Economist, 1999).

Local market knowledge to cater to local tastes: local taste crucially affects the way retailers sell their goods. In 1996 Wal-Mart set up efficient, clean supercenters in Indonesia, only to find that Indonesians preferred Matahari, the shabbier shop next door which reminded shoppers of a street market where they can haggle and buy the freshest fruit and vegetables. Two years later, Wal-Mart pulled out. Boots, a British pharmacy, found the number of visitors to its Thai shops soared after it started playing pop-music videos at full volume. Customers had found the shops too quiet. And at Boots in Japan, staff at the checkout stand up – its research has shown that Japanese shoppers find it offensive to pay money to seated staff. To
overcome such obstacles, multinational retailers often need a local partner and the willingness to do whatever local whim dictates (The Economist, 1999).

**Resources contributed by foreign partners**

Financial strength: During the economic crisis in 1997-2001, many Thai companies faced liquidity problems caused by the devaluation of the Thai currency and the inflating foreign debts. In the case studies, Central Group gained liquidity by selling its shares in Tops and Big C, which allowed the group to continue investing in new retail branches. CP Group, on the other hand, needed the foreign partner’s financial contribution in order to focus its own financial resources in its core agribusiness.

Technological know-how: As mentioned previously, local partners possess the necessary local knowledge which is crucial in retail trade. Yet multinational retailers do have strong contributions. Know-how is probably the greatest, according to Cees van der Hoeven, the chief executive of Ahold. At its heart, retailing is a sophisticated understanding of supply chains. For example, the new technology in electronic links allows suppliers to instantaneously receive the information from retailer shops what customers are buying at the checkout (The Economist, 2001). In this highly competitive environment, the Thai retailers in the case study, therefore, realised the need to rely on the technological know-how of their foreign partners.

Macro-level interviews also support the findings on the firm level. When asked what the rationales of local companies in the retail sector to get foreign direct investment were, good locations, economies of scale, and know-how exchange were the factors cited by the experts.
Abstract of the firm-level interviews:

“One of the key success factors of retail trade operators is the locations of their shops. Many competitors fight for good locations. As land price increased and top locations were draining out, competitors were forced to align, for example, Central with Robinson.” (Prof. Dr. Ruangrai Tokrisna, economics professor, personal interview, 2005)

“Synergies gained from cross-border acquisitions include achieving economies of scale in procurement and the ability to save costs by consolidating back-office operations are examples of the strategic motivation. Another obvious advantage of selling businesses to foreign operators is that local firms can then gain technological know-how from foreign partners.” (Dr. Kongkiat Opaswongkarn, cross-border acquisitions specialist, personal interview, 2005)

The comparisons between all four cases are shown in Exhibit 29. All companies show highly similar configuration in partner contributions, in which a complementary relationship is apparent. The Thai partners contributed to good store locations, relationships with suppliers, local market knowledge, and local contacts and political connections. The foreign partners, on the other hand, brought in their superior technology and management know-how as well as financial strength.
Exhibit 29: Synergy fit between Thai and foreign partners

In short, the synergy potential of the partners in all four cases has generally proven to be high. Local firms and their foreign partners appear to have brought a distinctive set of values into the partnerships.

3.1.3  Fit between resources and control

The fit between resources and control was identified by asking the following questions: What was the agreed share structure and management structure? How about today?

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57 Author’s illustration.
Abstract of the firm-level interviews:

“The Central-Ahold partnership in Tops started as a joint venture. Since the shares were held equally, there were two CEOs (Wallaya Chirathiwat as CEO in financial and purchasing and Tom Denhertog as CEO in operations). When we leased the remaining 50% shares to Ahold in 1997, the top management all became foreigners, but Thais were still present at the director/manager levels. At the board of directors, the Ahold:Central ratio was 8 to 2.” (Central Tops management executive)

“Casino held 66%, Central 13%, and other shareholders 21% while the composition of the board of directors was 13 from Casino, 7 from Central, and 3 independent directors. The CEO was from Casino, while the CFO came from Central.” (Central Big C management executive)

“The regulation limits foreign shareholding to no more than 49%. However, we needed to apply for a special request for Tesco to hold 99% because Tesco wanted to have majority management control. The CEO must be British (replacing Narong Jierawanont). Also, important departments, such as financial and purchasing directors, were from Tesco. The less important ones like those in logistics were still held by the existing local management. At the beginning of the transition, there were ten people from each side, including Narong and Soonthorn. Later, when the transition was completed, only two people were left representing CP. The rest came from Tesco with only Narong and Soonthorn left.” (CP management executive)

Identifying the related factor:
Composition of the board of directors

As presented in the case of Central Group, the controlling seats between Central and Ahold (2 versus 8) represent more or less the financial resource contributions of the two partners (share ownership 0/100) in the case of Tops Supermarket. The
similar proportion of financial resource contribution to control is also seen in the case of Lotus. Detailed comparisons between all three cases are given as follows.

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share ownership after acquisition (Thai/ Foreign)</td>
<td>0/100</td>
<td>13/66</td>
<td>0/100</td>
</tr>
<tr>
<td>Composition of Board of Directors (Thai/ Foreign)</td>
<td>8 vs. 2</td>
<td>7 vs. 13</td>
<td>10 vs. 2</td>
</tr>
<tr>
<td>Level of fit</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Exhibit 30: Fit between resources and control

An interesting point to notice is the low level of fit between resources and control in the case of Big C. Despite the actual contribution of only 13% shares, Central managed to get 7 seats on the board of directors, while Casino held 13 seats.

3.1.4 Cultural fit

Cultural fit was identified by asking the following questions: How would you describe the cultures of both sides at the outset of the acquisition? Were there cultural differences? Would there be a difference in cultural fit had the acquirer been a Thai company?
Abstract of the firm-level interviews:

“There was a culture clash because there were simply too many changes. Many employees quit because they could not cope with the pressure of constantly having to be measured and to catch up with the new systems. At the same time, there were a lot of new recruits. So, employee turnover was quite high.” (Central Tops management executive)

“There was not much culture clash because French culture is pretty similar to Thai’s.” (Central Big C management executive)

“There were cultural differences, but no clashes. Most people thought of the differences and changes as development. So they accepted these changes. Management and HR played an important role in moderating.” (CP Lotus management executive)

“There were no culture clashes at the beginning because the old management was kept during the transition period. Employees were allowed enough time to learn and adapt.” (CP Lotus management executive)

Identifying the related factors:
Cultural differences, culture clash, learning and adaptation

The results of inter-partner fit in terms of organisational culture are summarised in Exhibit 31. The Tops case shows the lowest level of fit between the organisational cultures of Thai and foreign partners.
The empirical results suggest that the two acquirers, Ahold (acquiring Tops from Central) and Tesco (acquiring Lotus from CP), were dominant in imposing their professional management styles upon the local firms. Casino, on the other hand, applied a more consensus-based management.

### 3.2 Management of acquisition process

Apart from the issue of fit between the partners, challenges and solutions occurred during the management of the acquisition process are also investigated in the case studies.

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**Exhibit 31: Organisational culture fit between Thai and foreign partners**

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cultural differences</strong></td>
<td>High-moderate</td>
<td>Moderate</td>
<td>High-moderate</td>
</tr>
<tr>
<td><strong>Cultural clash</strong></td>
<td>High-moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Cultural unfit</strong></td>
<td>High-moderate</td>
<td>Moderate</td>
<td>High-moderate</td>
</tr>
<tr>
<td><strong>Cultural fit</strong></td>
<td>Low-moderate</td>
<td>Moderate</td>
<td>Low-moderate</td>
</tr>
</tbody>
</table>

**Exhibit 32: Extract of the dissertation’s guided framework**

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58 Author’s illustration.

59 Author’s illustration.
The following section discusses the empirical results of the variables associated with the management of the acquisition process: due diligence, planning and agreement as well as communication and implementation.

3.2.1 Due diligence

Management of the acquisition process usually starts with due diligence in order to identify the right partner by gathering as much information about them as possible. In the interviews, respondents were first asked to describe their general experience during the due diligence phase of the partnership. Later, specific questions about the due diligence procedure were asked. These questions included: Who were the stakeholders? Who led the negotiation process? How was trust between the partners created? Were inter-partner fit areas discussed during due diligence?
As presented above, all Thai firms in the case studies considered trust creation as the ultimate goal of their due diligence process. In all cases, reputation played an important role in building trust. Because all companies were publicly listed,
there was a certain level of information transparency which made the due diligence process for all cases successful. Also, all the Thai companies were more or less satisfied with the commitment and fairness levels of their foreign partners.

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation and experience</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Transparency</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Commitment</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Fairness</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td><strong>Level of Trust</strong></td>
<td><strong>Moderate</strong></td>
<td><strong>Moderate</strong></td>
<td><strong>Moderate</strong></td>
</tr>
</tbody>
</table>

Exhibit 33: Due diligence procedure executed by the Thai firms

3.2.2 Planning and agreement

In order to explore the planning and agreement procedure, the following questions were used in the interviews: Please describe your experience during the planning and negotiation phase. Who led the negotiation process? How were agreements reached? How were agreements between the “old ways” and “new ways” of management made?

60 Author’s illustration.
Abstract of the firm-level interviews:

“The agreement was reached, based on the condition that the company remained public and most of its employees stayed.” (Central Big C management executive)

“Big C did not have operational problems, only financial ones. Also, retailing is a people business. Having good local knowledge and human resources is crucial to the business success. Therefore, it is important for the acquirers not to change the culture, but only the system. Casino was very agreeable because they did not intend to systematically change us to a French organisation. The Dutch (Ahold) are more professional, but Big C customers are from lower-income groups and, thus, do not need to be professional.” (Central Big C management executive)

“Do not change the management because they possess valuable local knowledge. Our business was good already. The only thing we needed was financial and technological support, not new management.” (Central Tops management executive)

“The French (Casino) approach is more blending, rather than imposing. Even at the operational level, they saw that the clothing department was already good, so they did not force us to change.” (Central Big C management executive)

“There were a lot of changes because they think they were superior in operations to us.” (Central Tops management executive)

“The Dutch (Ahold) imposed their way and did not listen to us. Casino Group, on the other hand, listened to us. That worked quite well.” (Central family member)

“We took turns at being teacher and student, trying to balance the old and the new ways.” (CP Lotus management executive)

“At the end, the management style changed towards the British way, with more focus on people as well as marketing and merchandising.” (CP Lotus management executive)

Identifying the related factors:
Cultural dominance, mutual consulting, consensus-based decision making, adaptation
From the interviews, there are two main factors which characterise planning and agreement between the partners (see Exhibit 34). The first factor is the *attempt of acquirers to impose or to blend in their operational styles with the acquired*. One of the objectives of all foreign partners in the cases was to gain majority management control. Ahold and Tesco, especially, seemed to aim at implanting their management styles into the acquired local organisations. On the other hand, Casino appeared not to impose their organisational culture on the Big C personnel. As many Big C staff put it, “They listened to us.”

<table>
<thead>
<tr>
<th>Illustrative data</th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquirer dominant</td>
<td>Mutually consulting</td>
<td>Acquirer dominant</td>
<td></td>
</tr>
<tr>
<td>Local firm wanted high level of participation in management</td>
<td>All important decisions were consensus-based</td>
<td>Local firm saw changes as opportunity and adapted</td>
<td></td>
</tr>
<tr>
<td>Consensus on operations</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Exhibit 34: Consensus between the partners

Another factor related to the planning and agreement phase was *the acceptance of the imposer by local firms*. Thai firms, especially entered into the acquisition transactions mainly because of their need of financial support from the foreign partners. Therefore, they tended to disagree with the partners’ wish to change management and operation styles which they thought were already good. Staff at Tops seemed to struggle to accept the agreement made by Ahold. The personnel at Lotus, on the other hand, were less opposed.

### 3.2.3 Implementation and communication

To investigate the implementation and communication process of the case firms, interviewees were asked to comment on the following questions: What were your experiences during the transitional phase? Who led the change process? What
kinds of changes were introduced? How were changes introduced? What kinds of communication measures were taken during the transition?

**Abstract of the firm-level interviews:**

“*Management was the only stakeholders.* There was no organisational change at the lower levels. Despite that, there were certainly more requirements at all employee levels, for example, reporting especially on performance measurements and high-technology systems were introduced to the staff.” (Central Big C employee)

“The implementation involved the management only. *The change process was led by Ahold.*” (Central Tops employee)

“Yes, there were too many changes which led to high employees’ turnover. Many old employees felt the pressure to catch up with new systems *imposed by Ahold.*” (Central Tops management executive)

“*Casino listened to us.* There was a regular change of the management team, while the representatives from the parent company came to visit four times a year. Despite this (constant changes in the management), *a good opportunity to transfer the expertise was created* when the good management came.” (Central family member)

“After the official announcement of the acquisition of Lotus by Tesco, the Thai CEO, Narong Jierawanont, *promptly organised a meeting to ensure the staff that the deal was a positive move* and that the employees’ jobs were safe.” (CP Lotus management executive)

**Identifying the related factors:**

Communicate early, involve line managers, retain key people from the acquired organisation
Both Ahold and Tesco intended to take majority control and to introduce their management styles to Tops and Tesco respectively. According to the interviews, these measures included, for example, an introduction of the key performance index (KPI) and the meeting agendas. As a management executive from Tops put it, “The changes were introduced mainly during the transitional phase (1997-1999). In this period Tops Supermarket also expanded from 38 to 83 shops. There were two obvious changes. The first was the change of top management. The ones who stayed were asked to join regular training offered by the “flying consultants" from the US and additional 6-month training in Holland. There was an additional director position for management Information System (MIS) reporting directly to the CEO, besides the previous COO, CFO, logistics and purchasing. Another area of change was the introduction in professional management in daily operations such as the arrangement of shop fronts. Also there were noticeably more hard measurements such as the key performance index (KPI) and more focus on developing the soft skills such as an introduction of the Hay system and the cross-cultural training.”

Also, there was clearly more training in both companies not only for the top management, but also for the lower-level managers.

This was considered a big change for the staff at Lotus because we were neither used to having measurements nor having external consultants coming into the company. In the old days, if you hired consultants, it would have meant that you accepted not being able to do a good job by yourself (CP management executive, personal interview, 2006).

In all three cases, the information about the acquisition was promptly communicated to the employees through staff meetings. Also similarly, there was very little involvement by lower-level line managers and the staff. Despite those similarities among the cases, the acquiring company of Big C appeared to focus

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61 Six to seven consultants rotated in terms, each term lasted six months.
more than those of Tops and Lotus in retaining the key people from the acquired local firms (see Exhibit 35).

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early communication</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Retain key people</td>
<td>-</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>from the acquired</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Involve line managers</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Level of communication and implementation involvement</td>
<td>Low-moderate</td>
<td>High-moderate</td>
<td>Low-moderate</td>
</tr>
</tbody>
</table>

Exhibit 35: Implementation and communication process

### 3.3 Acquisition performance

To evaluate the acquisition performance, a combination of statistical (to evaluate the overall financial performance of the companies) and perceptual measures (to measure the level of partners’ satisfaction) were applied. From the companies’ financial reports and through interviews, the author collected five-year statistical data (1997-2001) based on the following criteria: sales revenue, same store sales growth and market share (see details on the selection of performance measurements in section C.1.4.3)

In separate questions, each interviewee was asked to rate the achievement of the partner’s objectives. They also rated the inter-partner working relationship. Additionally, interviewees gave their general impression on the completeness of the integration.

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62 Author’s illustration.
As presented in Appendix A.3, the financial performance of all three cases was positive. This was due to Thailand’s recovering economy as well as the increasing popularity of modern retailers among Thai consumers. Here Big C and Lotus did slightly better than Tops. Among the case firms at the country level, Lotus gained the highest market share in the Thai modern retail market (14.44% market share in year 2001, while Big C stood at 10.5% and Tops 6.4%). Moreover, the figures of “Same Store Sales” suggest that Lotus achieved the highest level of growth.

Similar results were found in the achievement of the partners’ objectives. Foreign partners were able to gain ground in Thailand’s retail market. Central overcame the liquidity crunch and at the same time got know-how from its foreign partners, while CP was able to shift their financial resources to their core business. In the case of Tops, however, the foreign partner later withdrew from the partnership.

The working relationship between the staff of Central and Ahold turned sour. With Casino, on the other hand, the good relationship with Central continued throughout. This was also partly true in the case of CP and Tesco, whereby some local management left Lotus while those remaining retained a moderately positive working relationship with Tesco (see Exhibit 36).
Taken into account all three of the above-mentioned considerations, the overall performance of Tops was considered to be “low-moderate”, while Big C had “high” and Lotus had “high-moderate” ratings.
E. Conclusions and discussions

The aim of this final chapter is to provide a recap on the case study results, summarise the theoretical contributions, as well as to present the implications for practitioners.

Section one highlights the links between the variables and offers suggestions for further studies. Section two discusses the strategic and the operative implications for practice and underlines the risks related to the integration issues in cross-border acquisitions. Sections three and four outline the limitations of the dissertation and provide a brief outlook of the future. The following exhibit illustrates the structure of the discussions.

Exhibit 37: Structure of the discussions

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64 Author’s illustration.
1 Conclusions

The first part of the conclusions highlights the key success factors in cross-border acquisitions in Thailand whereby the relationship between the research variables and the acquisition performance are presented. Also, the validity of those variables is verified. The second part points out the additional data derived from the case study results. These observations are not indicated in the guided framework, but are relevant in answering the research questions and are the important findings of this dissertation.

1.1 Key success factors of acquisition performance

The previous parts of this dissertation presented the inter-partner fit as well as the management of the acquisition process as the two main variables influencing the acquisition performance. The following section discusses both factors in detail.

1.1.1 Impact of inter-partner fit and management of process to performance

Exhibit 38 provides an overview of the case studies’ results and allows a clear cross-case comparison. Overall, the level of inter-partner fit at Lotus ranks as the highest among the three cases, while Tops and Big C are rated moderate. When considering the level of the management of the acquisition process, Big C is ahead of Lotus while Tops ranks last. The same pattern can also be seen in the overall performance.
As a general conclusion, the patterns derived from the combination of the overall inter-partner fit and the overall effectiveness of the management of the acquisition process are consistent with the ranking in performance – Tops ranks lower, compared to the higher ranked Big C and Lotus. This suggests a close relationship between the degree of inter-partner fit and the management of the acquisition process to the overall acquisition performance.

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synergy potential</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Objective fit</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Resource-Control fit</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Cultural fit</td>
<td>Low-moderate</td>
<td>Moderate</td>
<td>Low-moderate</td>
</tr>
<tr>
<td><strong>Overall inter-partner fit</strong></td>
<td>Moderate</td>
<td>Moderate</td>
<td>High-moderate</td>
</tr>
<tr>
<td>Due diligence</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Planning and agreement</td>
<td>Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Communication and implementation</td>
<td>Low-moderate</td>
<td>High-moderate</td>
<td>Low-moderate</td>
</tr>
<tr>
<td><strong>Overall management of process</strong></td>
<td>Low-moderate</td>
<td>High-moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Financial performance</td>
<td>Moderate</td>
<td>High-moderate</td>
<td>High</td>
</tr>
<tr>
<td>Achievement of objectives</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Working relationship</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td><strong>Overall performance</strong></td>
<td>Low-moderate</td>
<td>High</td>
<td>High-moderate</td>
</tr>
</tbody>
</table>

Exhibit 38: Impact of inter-partner fit and management of process to performance

Apart from the correlation between the key variables, there are a number of interesting observations of the results. Firstly in the case of Tops and Big C, the overall performance seems to correlate more to the management of process than it does the inter-partner fit (see the red circle in Exhibit 38). The opposite can be seen in the case of Lotus (see the blue circle in Exhibit 38). Although it may be

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65 Author’s illustration.
insufficient to conclude that the relationship is linearly causal due to the limited data, this suggests a clear co-existence between the two variables.

In the case study, all firms were in need of liquidity and decided to sell their shares as the economic crisis hit Thailand and its region. Here, it is important to note that Central’s core business was in retail trading while the agriculture business was the main source of income for CP. Having to sell off their retail businesses because of the liquidity crunch, Central appeared to be more sensitive to the ways that the acquisition process was being managed than CP.

In other words, if the decision to sell shares is forced by financial needs and the business is considered as core to a family business group, the management of the process can have an immense effect upon the acquisition performance. Belonging to the same Central Group, both Tops and Big C started out with a moderate inter-partner fit with their partners. With the integration process being handled properly, the acquisition outcome at Big C was relatively better than at Tops.

**Proposition 1.1:** In a cross-border acquisition of a Thai family group company by a European one, given that the acquired company is the *core business* of that family group, the positive relationship between the *management of the acquisition process* and the *acquisition performance* will be more significant than the latter with the *inter-partner fit*.

On the other hand, in the acquisition cases of the non-core business of a family group such as Lotus to CP Group, the performance appears to depend upon the inter-partner fit more than it does the management of the process.
1.1.2 Importance of cultural differences vs. cultural consensus

Second observation: in all case firms, the overall performance seems to have a clearer correlation to the management of the planning and agreement phase than it does the cultural fit (see the green circle in Exhibit 39).

<table>
<thead>
<tr>
<th></th>
<th>Tops</th>
<th>Big C</th>
<th>Lotus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synergy potential</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Objective fit</td>
<td>Moderate</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Resource-Control fit</td>
<td>Moderate</td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Cultural fit</td>
<td>Low-moderate</td>
<td>Moderate</td>
<td>Low-moderate</td>
</tr>
</tbody>
</table>

**Overall inter-partner fit**
- Moderate

| Due diligence             | Moderate   | Moderate   | Moderate   |
| Planning and agreement    | Low        | High       | High       |
| Communication and implementation | Low-moderate | High-moderate | Low-moderate |

<table>
<thead>
<tr>
<th>Overall management of process</th>
<th>Low-moderate</th>
<th>High-moderate</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>Moderate</td>
<td>High-moderate</td>
<td>High</td>
</tr>
<tr>
<td>Achievement of objectives</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Working relationship</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

**Overall performance**
- Low-moderate
- High
- High-moderate

Exhibit 39: Impact of cultural fit vs. planning and agreement to the performance

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66 Author’s illustration.
Here, the cultural fit between the partners at the pre-acquisition phase needs to be carefully compared with the management of the process during the post-acquisition phase. The factors identified by the interviewees as relevant to the sub-variable “planning and agreement” at post-acquisition include cultural dominance, mutual consulting, consensus-based decision making, and adaptation. According to Chatterjee et al (1992), these factors translate into a consensus in operations between the partners and reflect clearly in the overall performance. According to the case results, the interviewees related bad working relationships more to the problem of *cultural consensus* (during the planning and agreement phase) than they did the *cultural differences* (cultural unfit). In other words, they seemed to have less problems with “They were very different from us”, but more with “They imposed their ways and did not listen to us.”

Despite their partner being the same family group (Central Group), Casino achieved a higher level of consent in the planning and agreement phase at Big C than Ahold did at Tops. As a senior family member of Central pointed out, “It did not work with the Dutch (Ahold) because (1) they imposed their ways while not listening to us (2) the management team which they sent to Thailand were not of the highest calibre. They probably saw Thailand as being a less significant market and, therefore, brought in limited resources. Later, they faced trouble especially in the areas where we have superior knowledge such as human resources, location selection, and the tastes of local consumers. Casino Group, on the other hand, listened to us. That worked out quite well.”

**Proposition 2:** In a cross-border acquisition of a Thai family group company by a European one, the relationship between the *acquisition performance* and *cultural consensus* will be more pronounced than the *cultural differences* of the partners.
1.2 Other lessons learned from the case study

This section highlights the other observations derived from the open-ended interview results. These observations are neither addressed in the review of the literature nor the dissertation-guided framework. Nevertheless, they are interesting findings and are relevant to answering the research questions.

1.2.1 Which cultural differences?

Contrary to the theoretical suggestions that cultural differences often lead to more difficulty in integration, interviewees in both the Central and CP cases found that there are fewer integration issues in the cross-border acquisitions than in the domestic acquisitions. The managers at Central pointed out that, in general, the cultural integration with Ahold and Casino was achieved in an easier manner when compared to Central's previous acquisitions of the other two local partners\(^{67}\), with whom the group experienced severe integration-related difficulties. Three main reasons were suggested by the interviewees by way of explanation of this phenomenon.

First, the human resources integration issue is more difficult because local acquisitions usually involve a physical consolidation of staff. In most cross-border acquisition cases, there is no large-scale physical integration of the workforce, but merely changes in the management and the board of directors.

For us, cross-border acquisitions mainly concern changes of the ownership and the top management, while the issues involving integration of the lower-level employees are rather minimal. For example, when CP took over Sunny Supermarket, there were a lot of problems and the people were divided into two camps. With Tesco

\(^{67}\) Before entering into the cross-border partnerships with Ahold and Casino, Central acquired the local SaveOne supermarket in 1994 and its main competitor in the department store segment, Robinson, in 1995.
there was no such division. It was clear that there was only one company with all staff being on the same side (CP management executive, personal interview, 2006).

Second, there is a less diverse synergy contribution among the local partners compared to the cross-border acquisitions. The duplications in partner resources result in more competition and less respect (Hill and Hellriegel, 1994). However, each partner in the cross-border cases offered different resources from its partner; for example, a foreign partner contributed their technology and management know-how while a local partner brought in the domestic know-how \(^{68}\). Therefore, there is a clear distinction in partners’ contributions. When both partners are local companies, there is more competition because the resources contributed by each partner are similar and partly duplicated. According to a Central family member, the expertise brought in by the foreign acquirer is a very important factor in gaining respect from the acquired company. He also highlighted the notion that Thai people are often compliant. Upon noticing that the partner has expertise, they will accept the change and follow. Being acquired by a foreign firm can not only be seen as an opportunity to gain expertise, but it could also mean an opportunity for career advancement for the local staff.

Cross-border acquisitions are often well accepted by the staff (at least at the lower levels) because people see them as “opportunities.” As a result of the deals, employees usually receive training to use modern tools and, in some cases, have the opportunity to advance in their careers. Local acquisitions, on the other hand, are viewed largely as “blocking the opportunities”. When Tesco came with their people-focused approaches, the staff loved that (CP management executive, personal interview, 2006).

Moreover, there is the issue of “face” among the Thai partners which usually ends up in conflict. For example, when Central acquired Robinson, it kept most of Robinson’s management team in order to “save their face.” This led to problems

\(^{68}\) See the results on partners’ synergy in section D 3.1.2.
later on. As an executive at Big C put it, “Merging with a Thai firm is more difficult. Because the Thai people take face very seriously, the integrations are usually carried out in an extremely sensitive environment.” Another manager from Tops added, “After we acquired the local SaveOne supermarket in 1994, we noticed that the firms’ organisational cultures were very different. Many SaveOne staff quit.”

**Proposition 3:** There are less human resource integration problems in the cross-border acquisitions, when compared to the acquisitions among Thai firms.

### 1.2.2 The best of both worlds, and family too

If the strategic intention of the acquirers is to gain the local know-how and the connections, they must make sure to get the commitment from the local top management. Not only do these people possess the necessary local knowledge, but they also stand at the centre of the “old way” of management based on networks and relationships which is still important in operating business in relatively low institutionalised market environments such as in Thailand.

As seen in the CP case, Tesco tried successfully at an early stage of the acquisition process to get the commitment from the two top managers of Lotus who, in turn, gave their employees positive signals regarding the change. An even more obvious example was seen in the case of Central where the local managers pointed out several times the importance of choosing foreign partners who “listen” to what the local firms suggest, especially in areas which the local knowledge is crucial to business success.
Ten years later

After a buying spree by global retailers in the 1990’s, the financial repercussion started to hit many in the retail industry in 2001. Many Western firms were forced to spin off their unprofitable businesses. Although Carrefour and Ahold made plenty of money abroad, their continuing expansion was straining their balance sheets. Others, such as Casino and Tesco, Britain’s market leader, were investing large sums abroad in a bid to catch up. Capital spending sucked up most of their cash-flow, forcing them to take on more debt (The Economist, 2001). With Western managers persisting in their attempts to go global, too often they are motivated less by the chance of creating value than by the fear of being left out and gobbled up themselves (The Economist, 2005).

Despite the withdrawal of some big players like Ahold, the 1990s saw unprecedented transformation of the retail industry in Thailand. At the beginning of the Asian economic crisis back in 1998, Central decided to “lease” the remaining 50% of its shares in Tops Supermarket with the condition that it had the right to buy-back those shares within eight years. Central Retail Corporation (CRC) changed the name to CRC Ahold. Later, at the end of 2002, Central exercised this right and bought 100% shares back and changed the holding’s name back to CRC. In the words of Suthichart Chirathiwat, “I am not worried. Whomever we sell (the shares) to, we can take (buy) them back”. Tops became wholly owned by Central Group in early 2004. Today it is the leading supermarket brand in

Proposition 4: In a cross-border acquisition between European and Thai companies, getting the commitment of the family members and the line managers will result in a better post-acquisition performance.
Thailand. Big C still retains its shareholder structure from 1998, having Casino as the major shareholder. Before the crisis, CP Group was the sole owner of Lotus Supercenter. After selling the majority shares to Tesco, CP held only 8% of Lotus ownership in 2001. In 2002, upset by local media criticism of the group’s involvement in the controversial hypermarket businesses in Thailand\textsuperscript{69}, CP Group chairman Thanin Jierawanont decided to drop all of the group's interests in the segment in Thailand and expanded the conglomerate's retail businesses in China instead (Vorabandhit, 2004).

2 Theoretical and practical implications

2.1 Implications for theory

Previously in the introductory chapter, a number of shortcomings of the literature in cross-border acquisitions in Asia were identified. The literature review suggests that despite an increasing number of cross-border acquisitions in Asia, little has been done to explain the link between the Asian business and the human resource issues in acquisitions. With the case studies of the retail industry in Thailand, the dissertation provides plenty of insight into the underlying nature of family businesses in Thailand as well as into the challenges related to the cultural integration in cross-border acquisitions.

In order to systematically tackle the human resource issues in acquisitions, two streams of literature (the concept of fit and the management of the integration process) are drawn together in order to give a holistic picture of the related challenges. Results from the case studies suggest that management of the

\textsuperscript{69} Similar to elsewhere, multi-national hypermarkets in Thailand are not popular among the smaller local retailers.
acquisition process has a clear relationship with the success of cross-border acquisitions.

Despite the fact that the sub-variables remain the same as in the dissertation-guided framework (see Exhibit 40), the case study results allow for further explanation of the relationship among those sub-variables. The following two sections discuss this in detail.

Exhibit 40: Revisiting the dissertation framework

2.1.1 Inter-partner fit in acquisition involving Thai family conglomerates

Objective fit

From the case study, there are no proven links between the objective fit of the partners and the acquisition performance. This finding is in line with previous research on financial and strategic fit (Singh and Montgomery, 1988; Shelton, 1988; Lubatkin, 1987; Chatterjee, 1986) which found no consistent relationship between the firms’ financial performance and the strategic fit of acquirers and acquired firms.
Nevertheless, the case studies’ results do suggest an important theoretical implication of this sub-variable. In particular, the dissertation found that if the objective to sell the business is driven by financial pressure rather than strategic intention (for example, sharing technological know-how), the badly executed management of the acquisition process can have a dramatic effect on the performance. It can well be concluded then that the objective fit can have an indirect effect on the success of acquisitions.

**Synergy potential**

Similar to the case of the objective fit, the case studies show almost no correlation between the synergy potential of the partners and the acquisition performance. Moreover, unlike the objective fit, there is neither a direct nor indirect link between the synergy potential and the management of the acquisition process.

However, an interesting observation from the interviews is that contrary to the cross-border acquisition cases, most of the acquisitions between the Thai and the foreign partners are characterised by a very high level of synergy potential. As Hill and Hellriegel (1994) pointed out, complement occurs “only when the partners bring distinctive competencies that are different and non-overlapping,” thereby stressing the “non redundant” nature of partner resources. In these cross-continental acquisitions, the resources contributed by the Thai and the European partners in most cases are non-redundant, and therefore, lead automatically to the high level of synergy potential. This is not the case with the local acquisitions among the Thai case firms, due to the fact that the resources contributed by the Thai companies are similar and lead to more problems when compared to the acquisitions involving foreign partners.
Fit between resource and control

A positive link between bargaining power and control has been well documented in the international joint venture research. For example, Yan and Duan (2003) found that a logical extension of the correspondence between bargaining power and control is that when co-alignment exists between the two variables (for example, the control structure is consistent with the structure of bargaining power), each partner achieves what it deserves so that its position in relation to the other in the partnership is justified. As a result, the venture’s stability increases. When such a co-aligning balance is tilted, however, it produces unhappy players who will feel that the control exercised by their partner is undeserved. This perceived inequality and injustice will give rise to inter-partner politics and joggling-for-control activities which will hurt performance.

This theory, however, is proven otherwise in the case of Big C where the resource–control fit was the lowest, but the working relationship between the partners was ranked highest among the three case companies. Why is that so?

Among the literature investigating the concept of fit in cross-border acquisitions, there is a research stream which tackles “tolerance to multiculturalism”. In their work, Chatterjee et al (1992) measured tolerance level by the extent to which an acquired firm’s managers perceive the buying firm to be imposing its goals and decisions (both operational and strategic) upon them. According to Walter (1985), this measurement approach assumes that control mechanisms represent the primary means by which the buyers transfer their own culture to the sellers; the more controls, the less the tolerance. Clearly it is not possible to directly control the beliefs of the acquired management team. However, by establishing policies and procedures that influence how the acquired management team plans, budgets, and finances major investments, its beliefs may, over time, conform to those of the management of the buying firm. As in the case studies, the acquiring firms can impose a management approach which is performance-oriented by
introducing measurement tools such as the key performance indexes to the acquired company.

In this respect, by allowing Central to have more control in Big C than what would be reflected by its real financial contribution, Casino showed that its tolerance to multiculturalism was high – contributing to the positive results of its working relationship with Central.

*Cultural fit*

Datta (1991) pointed out the importance of an “organisational fit” as one of the crucial determinants of the acquisition performance because it influences the ease with which two organisations can be assimilated after an acquisition. Similarly, Buono, Bowditch, and Lewis (1985) raised the importance of “cultural ambiguity” – a situation characterised by uncertainties concerning whose style of management is to be adopted by the acquired firm. Also, they suggested that differences in management styles might be a main reason why cross-border acquisitions often fail to achieve the expected level of performance. Similarly, Hill and Hellriegel (1994) argued that superior performance is associated with the sharing of similar operating philosophies or the same business style between the partners.

In addition, Chatterjee et al (1992) found that investors are generally sceptical about acquisitions where the cultures between the top management teams are perceived to be incompatible, while they are supportive of acquisitions where the cultures appear to be compatible. They concluded, therefore, that the management of a buying firm should pay at least as much attention to the issues of cultural fit during the due diligence process as they do to the issues of strategic fit.

The case studies, on the contrary, did not confirm that there was a strong link between the “cultural fit” (cultural differences) of the partners and the acquisition performance. On the other hand, the results did show a clear relationship between
the acquisition performance and “cultural consensus”70. Being cross-continental acquisitions, all three cases were characterised with high level cultural differences between the partners, and therefore, low cultural fit. It was the cultural consensus formed between the partners that appeared to be more relevant than the cultural fit.

The following exhibit highlights a summary of the differences between the reviewed literatures in inter-partner fit, compared to the results found in the case studies.

<table>
<thead>
<tr>
<th>Inter-partner fit</th>
<th>Western literature</th>
<th>Thai case study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective fit</strong></td>
<td>No obvious link to performance</td>
<td>Same but core business requires more careful management of acquisition process and autonomy than non-core</td>
</tr>
<tr>
<td><strong>Synergy potential</strong></td>
<td>No obvious link to performance</td>
<td>Same synergy potential level is mostly very high in cross-continental acquisitions</td>
</tr>
<tr>
<td><strong>Resource-control fit</strong></td>
<td>Suitable resource-control structure leads to sustainable working relationship of partners</td>
<td>Found opposite in Big C case, where fit is low but good relationship explained by tolerance to multiculturalism</td>
</tr>
<tr>
<td><strong>Cultural fit</strong></td>
<td>Cultural “compatibility” linked to performance</td>
<td>Found no link to performance instead, found link between cultural “consensus” to performance</td>
</tr>
</tbody>
</table>

Exhibit 41: Differences between literature in inter-partner fit vs. case study results71

70 See the case results on the planning and agreement in section D 3.2.2.
71 Author’s illustration.
2.1.2 Management of acquisition process involving Thai family conglomerates

Due diligence

There is to date no well-established empirical connection between the implementation of cultural due diligence and post-acquisition performance (Reed, 1989).

Despite the fact that there was no significant relationship between these two variables found in the case studies, the due diligence process played two very important functions. First, building trust is crucial to the establishment of the relationship with the Thai partners. Operating in a relatively low-institutionalised environment based on the existing networks, Thai companies need to take a long time to find out about their business partners before trust is created. In the case of Tops, the due diligence process took two years until the family members felt comfortable enough to enter the deal with Ahold. In their work, Schweiger, Ivancevich, and Power (1987) attributed poor post-acquisition performance as a result of anxiety, distrust, and conflict. In this respect, the due diligence process which aims at building trust might contribute to successful integration.

Another function of the due diligence process is to help gain awareness on similarities and differences between the partners. Despite these potential benefits, the process to analyse corporate culture in most acquisitions is often unstructured and depends largely on intuition (Steinle et al, 2004). This obstacle to an effective due diligence process was, unfortunately, also faced by the case firms. In this respect, the dissertation finds the role of the due diligence process more pronounced in trust building than it does as an information-seeking tool.

Planning and agreement

A study by Chatterjee et al (1992) found not only the cultural differences of the partner firms to be significant to performance, but also multiculturalism. Their
findings suggested that as tolerance decreases, so does the market’s earnings expectations. They, therefore, concluded that the integration process needs to proceed carefully in order to read any anticipated synergies.

In a similar fashion, the case study showed that there was a strong link between the cultural consensus between the partners and the acquisition performance. Consensus among the partners on the company’s mission, strategy and operating principles appeared to significantly contribute to the acquisition performance by minimising destructive conflicts, political behaviours, and confusion of authority among the employees. It could also be seen that a high level of partner consensus is possible to achieve even when the partners have a low level of cultural fit (such as in the case of Lotus). The Thai employees were willing to accept the management styles imposed by Tesco because they saw the deal as an opportunity to advance in their careers since there was no integration of the non-managerial workforce between CP and Tesco. This resulted in a good working relationship and a well-perceived performance.

_Implementation and communication_

Similar to the case of planning and agreement, the case studies showed a correlation between the effectiveness of the implementation and communication during the transitional process and the acquisition performance.

This is also in line with the literature. In his work, Bastien (1987) suggested that communications might have increased performance and reduced uncertainty. Additionally, Schweiger and Denisi (1991) used a field experiment to confirm that a preview program, which is designed to enhance two-way communication between management and employees, can help reduce the level of employees’ uncertainty, increase satisfaction, and increase trust of the company. As an additional point, the case study highlights the importance of family members’ involvement in the
transitional phase in order to communicate a positive message to their staff and to share local knowledge.

The summary of differences between the literature on the management of the acquisition process compared to the case studies’ findings can be found in the following exhibit.

<table>
<thead>
<tr>
<th>Management of acquisition process</th>
<th>Western literature</th>
<th>Thai case study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Due diligence</strong></td>
<td>No obvious link to performance</td>
<td>Same</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Focus on building trust than any other information</td>
</tr>
<tr>
<td><strong>Planning &amp; agreement</strong></td>
<td>Strong link to performance</td>
<td>Same</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Most important especially to “cultural consensus” in the case of core business</td>
</tr>
<tr>
<td><strong>Implementation &amp; communication</strong></td>
<td>Strong link to performance</td>
<td>Same</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Involve family members in transition phase</td>
</tr>
</tbody>
</table>

Exhibit 42: Differences between literature in management of process vs. case study

2.2 Implications for practice

For practitioners, the dissertation identifies the following factors as the most critical to the success of cross-border acquisitions: (1) The impact of the management of process on the acquisition performance, (2) The importance of cultural consensus as opposed to cultural differences, (3) Two additional findings include the differences between the cross-border acquisitions and the local ones as well as the importance of family member involvement in the transitional phase. These implications are discussed in detail in this section.

72 Author’s illustration.
2.2.1 *Pre-integration phase*

The dissertation has demonstrated that the management of the acquisition process could have a substantial impact on acquisition performance. Also, despite the fact that the integration process can be managed similarly to the acquisition cases elsewhere, there are some considerations which require careful execution when dealing with an acquisition involving a family business group in Thailand.

Starting from the pre-integration phase, it is important to use the due diligence procedure not only to get first-hand information about the partner and to build trust, but also to systematically investigate the potential fit problems and address potential integration issues.

Often, the evaluators (such as mergers and acquisitions consultants) of inter-partner fit put considerable effort into analysing the synergy potential between the partners. The case studies showed, however, that synergy potential can usually be high in cross-border acquisitions because the local firms generally possess different kinds of resources when compared to their foreign partners. In the case study, for example, foreign partners contributed their financial resources and know-how in technology and management. In exchange, the Thai partners provided existing good store locations and brand as well as local knowledge and connections.

The matter becomes more complicated in the case of partners' objectives which need to be analysed carefully. Often, the firms' strategic intentions are varied. Here, a critical factor which has a significant effect on a local firm's strategic decisions is whether or not the firm is the core business of a family group. Exhibit 43 illustrates an example of how the local firm's strategic intentions could affect its willingness to accept the changes introduced by a potential foreign partner.
Exhibit 43: Firm’s objective and its willingness to accept changes

In this example, the initial objective of a Thai firm is based on its financial needs and the firm, as a result, searches for a partner to acquire its shares. If this firm happens to be the core-business of a larger family conglomerate and does not need the know-how from the acquirer, this firm will be more likely to be hostile to changes imposed by the acquirer.

Therefore, the due diligence procedure needs to thoroughly investigate these factors and a concrete management of the integration process needs to be carefully discussed and agreed upon.

2.2.2 Post-integration phase

From the case studies, it can be concluded that the inter-partner fit (or unfit) is tightly linked with the management of the acquisition process and needs to be closely considered when designing the transitional process. In other words, the relationship between the two variables is that the strategy (management of the

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73 Author’s illustration.
process) needs to follow the situation (inter-partner fit). These variables, therefore, cannot be considered separately.

For instance, when acquisition is seen as an opportunity (objective fit), there are generally fewer problems with the changes introduced by the acquirer. This was seen most clearly in the case of Tesco-Lotus. However, if a deal is not truly seen as an opportunity (objective unfit) but as a necessity, there is a need to carefully handle the planning and agreement between the two partners in order to reach cultural consensus, which is key to acquisition success.

Cultural consensus can be achieved by adopting very different strategies. In the case of Lotus, the local firm made a compromise to accept the changes imposed by Tesco and, therefore, achieved consensus. On the other hand, cultural consensus was reached by Casino giving more autonomy to the Thai partner at Big C. These findings suggest that overemphasis on controlling the newly acquired firms by imposing decisions on them may be dysfunctional. To show intolerance towards the acquired managers’ culture is to threaten the cooperation and commitment of the key people who may be instrumental in determining the acquisition’s ultimate success.

3 Limitations of the study

Two related issues should be raised in regard to the generalisability and validity of the dissertation: (1) The representativeness of the sample, and (2) the validity of the key success factors.

As Hunt (1981) and others have highlighted, one can doubt the generalisability of the findings based on a sample drawn from a few firms. Potential for several biases exists here. Despite these biases, the dissertation results can be interpreted as a “qualitative analysis” of the cross-border integration cases, which
provide a guided framework to the factors that are important to the success of the acquisitions of other firms in other industries. Each variable and its relationships are used for the purposes of exposition.

The other potential problem in using such a guided framework stems from the assumptions underlying the relationships between the variables, interpreted by the interviewees and the researcher. According to Schein (1997), in qualitative case studies there is a likelihood that the observed as well as the observer will project their own cultural assumptions onto the interpretation. This, unlike the quantitative statistics, reduces the meaningfulness of the interpretation of the framework and the variables within it. Although it may be insufficient to conclude that the relationships are linearly causal due to these assumptions and to the limited data, the case studies’ results do highlight various clear co-existing relationships among the two variables and will be used as guidance for further quantitative research.

Because of these limitations, further empirical study is required to arrive at more methodologically valid factors. Also, readers who wish to utilise the results of this analysis should bear in mind that before actually applying the results, one should verify as best as possible the particular locale in question.

4 Outlook

Despite its limitations, this dissertation provides several insights into the management of the cross-border acquisition process in Thailand. The study has demonstrated that systematic planning on the management of integration process can significantly improve the acquisition performance. It gives additional perspective to the cross-border acquisition literature.

The following points summarise some possibilities for future research: (1) an empirical study aiming to verify the dissertation’s propositions with a larger number
of cases and in different countries in Asia, and (2) an experiment which focuses on testing the importance of the management of the cultural consensus process, using experimental and controlled groups.
Appendices

A.1 Macro-level interviews

Development of foreign direct investment in Thailand

• How would you describe the development of foreign direct investment in Thailand – before World War II, after World War II (1950-1996), the Asian economic crisis (1997-2001), and post-economic crisis (2001-2005)?

• How does the development affect the types of foreign direct investment in Thailand?

Mergers and acquisitions in Thailand

• Could you compare the trends of local versus cross-border M&A?

• What is the proportion of mergers compared to acquisitions, when we talk about “M&A” in this country?

• Which internal/external factors have the most influence on the level of M&A in Thailand?

• Is M&A a reality of foreign investment in Thailand or is foreign minority shareholding still the only viable solution, and will it continue to be so, in most industries?

• What are the perceptions of local firms towards M&A activities – threat or opportunity?
Specific to M&A specialist and investment banker: M&A process at firm level

- What is the usual M&A process?
- Who are the deal initiators and coordinators?
- Which performance indicators are usually adopted by companies to track the long-term performance of the deals?
- What are the main reasons of M&A failure?

Specific to economic professors: M&A trends in retail trade sector

- How would you describe the evolution of the retail trade sector in Thailand?
- What are the M&A trends in the sector?

Specific to regulatory officials: Regulatory environment governing M&A

- How would you describe the development of regulatory environment governing foreign direct investment in Thailand, highlighting cross-border M&A in particular?
- Are there any differences in M&A among various industries?
- Which industries are categorized to be “promoted” by the government?
- What are the rationales of local companies in getting foreign direct investment?
A.2 Firm level interviews

General information about both partners

- History of each company
- Retail market in Thailand: segments, competitors, growth, and trends
- Background of M&A transactions

Inter-partner fit

- Objective fit:
  - What were rationales of the partners behind establishing their partnership?
  - How did the firm view the acquisition offer – threat or opportunity?

- Synergy potential
  - What were the expected resources contributed by each partner?

- Fit between resources and control:
  - How were the seats/c control being allocated?
  - What was the agreed share structure and management structure? How about today?

- Cultural fit
  - How would you describe the cultures of both sides at the outset of the acquisition?
  - Were there any cultural differences?
  - Would there be a difference in cultural fit had the acquirer been a Thai company?
  - Using a five-point scale, please rate the following aspects of culture of your company and the ones of the partner.
Management of acquisition process

- Due diligence procedure
  - Your experience during the due diligence phase of the partnership
  - Who were the stakeholders?
  - Who led the negotiation process?
  - Were the inter-partner fit areas discussed during due diligence?

- Description of planning and agreement
  - What was your experience during the planning and negotiation phase?
  - Who led the negotiation process?
  - How was trust between the partners created?
  - How were agreements reached?
  - How were the agreements between the “old ways” and “new ways” of management reached?

- Communication and implementation
  - What was your experience during the transition phase
  - Who led the change process?
  - What kinds of changes were introduced? How were changes introduced?
  - What kinds of communication measures were taken during the transition?
• Acquisition performance
  o Today, do you consider the integration as completed?
  o Using a five-point scale, please rate the following criteria upon completion of the integration.

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<th></th>
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<tbody>
<tr>
<td>Sales revenue (million Thai Baht)</td>
<td></td>
<td></td>
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<tr>
<td>Number of stores</td>
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<tr>
<td>Same Store Sales</td>
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<td></td>
</tr>
<tr>
<td>Same Store Sales Growth (%)</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Market share (%)</td>
<td></td>
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</tr>
<tr>
<td>Overall financial performance</td>
<td></td>
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</table>

  o How would you rate the achievement of the partner’s objectives?
  o How would you rate the inter-partner working relationship?

Final reflections

• What was your general impression of the M&A before and after the integration?

• Which factors do you think are crucial for the success/failure of partnership?
### A.3 Financial performance of case firms

<table>
<thead>
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<th>1997</th>
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<th>1998</th>
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<th>1999</th>
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<tr>
<td></td>
<td>Tops</td>
<td>Big C</td>
<td>Lotus</td>
<td>Tops</td>
<td>Big C</td>
<td>Lotus</td>
<td>Tops</td>
<td>Big C</td>
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<tr>
<td>Sales revenue</td>
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<tr>
<td>(million Thai Baht)</td>
<td>10,789</td>
<td>17,665</td>
<td>12,934</td>
<td>11,190</td>
<td>20,612</td>
<td>17,172</td>
<td>11,033</td>
<td>22,464</td>
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<tr>
<td>Number of stores</td>
<td>27</td>
<td>19</td>
<td>12</td>
<td>40</td>
<td>20</td>
<td>14</td>
<td>40</td>
<td>20</td>
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<tr>
<td>Same Store Sales</td>
<td>400</td>
<td>930</td>
<td>1078</td>
<td>280</td>
<td>1031</td>
<td>1227</td>
<td>276</td>
<td>1123</td>
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<tr>
<td>Same Store Sales growth (%)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>-29.99%</td>
<td>10.85%</td>
<td>13.80%</td>
<td>-1.40%</td>
<td>8.99%</td>
</tr>
<tr>
<td>Market share (%)</td>
<td>8.20%</td>
<td>13.40%</td>
<td>9.80%</td>
<td>8.30%</td>
<td>15.20%</td>
<td>12.70%</td>
<td>6.80%</td>
<td>13.90%</td>
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</table>

Source: Athaporn Arayasantiparb (UBS financial analyst), Vorawit Singhin (Ministry of Commerce), and interviewees in the case firms.
References


The Economist (1999). *Shopping all over the world: Retailers are trying to go global. They will struggle to succeed*, June 17, 1999.


About the author

Chernrerthai Sithikornkul was born in Bangkok in 1977 and spent much of her first 20 years in Thailand except a year as an exchange student in the USA. After graduating from Chulalongkorn University, she started her first full-time job in marketing at KFC Thailand before spending a year in Budapest working at the British consulting firm SHL and discovering Eastern Europe.

In 2000, interest in the German language brought Ms. Sithikornkul to Switzerland, where she joined the Master of International Management program at the University of St. Gallen. During her internship at Swissair Group in 2001, she witnessed the trauma among fellow colleagues as a result of the group's bankruptcy. This event has played an important role in her focus of studies moving from marketing to human resources strategy in change management. In 2002, she wrote the master’s thesis on collective emotions during change process with the case study of Swissair and Crossair. After encouragement by Professor Dr. Martin Hilb, she decided to continue her academic path in this research area.

Besides her research activities Ms. Sithikornkul worked on cultural and communication issues in change projects at IBM in Zürich. In 2006, she joined the Thailand team at UBS Wealth Management.