TURUN KAUPPAKORKEAKOULU
Turku School of Economics

CORPORATE IMAGES IN MERGERS AND ACQUISITIONS

Case: Acquisition of The Body Shop by L'Oréal

Master's Thesis
in International Business

Author:
Elina Varvas

Supervisors:
Ph. D. Esa Stenberg
M. Sc. Mélanie Raukko

25.02.2008
Turku

TABLE OF CONTENTS

1 INTRODUCTION....5
1.1 Background to the study....5
1.2 Purpose and structure of the study....6
2 MERGERS AND ACQUISITIONS....7
2.1 Introduction to mergers and acquisitions....7
2.1.1 Definitions....7
2.1.2 M&A trends....8
2.1.3 Acquisition process....10
2.2 M&A-related challenges and acquisition motives....12
2.2.1 High failure rates of M&As....13
2.2.2 Challenges related to M&As....14
2.2.3 Alternatives to M&As....16
2.2.4 Motives to M&As....19
3 CORPORATE IMAGE....26
3.1 Introduction to corporate image....26
3.1.1 Definitions....26
3.1.2 Dimensions of corporate image....29
3.1.3 Corporate communications....31
3.2 Management of corporate image....34
3.2.1 Relationships between corporate image, strategy and positioning....34
3.2.2 Integration strategies for corporate and product brands....37
3.2.3 Corporate image management....40
3.2.4 Crisis management....47
3.3 Synthesis....48
4 RESEARCH DESIGN....51
4.1 Research approach....51
4.2 Collection and analysis of research data....52
4.3 Trustworthiness of the study....57
5 CASE DESCRIPTION....59
5.1 Presentation of the companies....59
5.1.1 Presentation of The Body Shop....59
5.1.2 The Body Shop's strategy and corporate image....60

5.1.3 Presentation of L'Oréal 61
5.1.4 L'Oréal's strategy and corporate image 63
5.2 The acquisition 64
5.2.1 Background 64
5.2.2 The deal and integration 65
5.2.3 Public's concern 66
5.2.4 Financial outcomes 68

6 CASE ANALYSIS 70

6.1 Acquisition motives 70
6.1.1 Motives to the case acquisition 71
6.1.2 Alternatives for L'Oréal and factors in favour of the acquisition 74
6.2 Potential challenges related to corporate images differences 76
6.2.1 Pre-acquisition considerations 76
6.2.2 Reactions to the case acquisition 79
6.2.3 Challenges in the post-acquisition stage 82
6.3 Managing corporate images in M&As 83
6.3.1 Image integration strategies 84
6.3.2 Motives for maintaining The Body Shop as a separate entity 85
6.3.3 Post-acquisition considerations 87

7 CONCLUSIONS 90

8 SUMMARY 96

REFERENCES 99

LIST OF FIGURES

Figure 1 The value and number of cross-border M&As 8

Figure 2 Hierarchical model of choice of entry modes 17

Figure 3 Relationships between corporate personality, identity, image and reputation 28

Figure 4 The updated corporate communications wheel 33

Figure 5 Integrating corporate brands... 38

Figure 6 Merged firm organisational identity 39

Figure 7 Product branding strategies 40

Figure 8 Stage 3 in corporate image management process: corporate image ... 43

Figure 9 Strategic approach to corporate identity programmes 45

Figure 10 The merger mix 49

Figure 11 A framework for corporate identity analysis 77

LIST OF TABLES

Table 1 Theories of merger motives 20

Table 2 Use of different types of sources in the case study............................ 55

1 INTRODUCTION

1.1 Background to the study

For decades, mergers and acquisitions (M&As) have represented a widely used strategy and a significant expansion alternative for companies. In the 1990s, this strategy grew even more popular, and the value of acquisitions executed in 1997 was higher than that of all acquisitions that were concluded in the 1980s. (Shimizu, Hitt, Vaidyanath & Pisano 2004, 308.) In the last few years it has become clear that M&As have been gaining momentum as a favoured internationalisation mode (e.g. World investment prospects survey 2007, 54), as M&A activity is experiencing a new peak that is verging on the levels of the former peak in 2000. In 2006, the value of cross-border M&As rose by 23 % to US$ 880 billion (€600 billion) and their number increased by 14 % (to 6974). (World investment report 2007, xv.)

Simultaneously with the increasing levels of M&As, academic literature has been paying increasing attention to the *soft* issues' impact on their success. This signifies that instead of only concentrating on financial questions when planning and managing an acquisition, more consideration is now given to organisational, psychological, and cultural questions, among others. One of these soft issues that has not been researched practically at all in relation to M&As, is corporate image questions. Lately there has been a number of interesting acquisitions where the joining companies' corporate images have not been entirely similar, and their motives have thus raised some questions among the consumers. Examples of such acquisitions in the domestic market include AS Tallink Grupp's acquisition of Silja Line in 2006 and Nestlé's acquisition of Valio ice creams in 2004 (e.g. Jaakola 2007; Koskinen 2007). This thesis concentrates on another acquisition (referred to as *case acquisition* in this thesis) with extremely different corporate images: L'Oréal Group's (L'Oréal) acquisition of The Body Shop International plc (The Body Shop) concluded in 2006. This case was chosen because the corporate image differences between the joining companies were exceptional and the acquisition was therefore not approved without hesitation by the consumers; in particular due to concerns related to ethical matters. The Body Shop has been a notable pioneer in adapting ethical and natural values into business whereas L'Oréal is often perceived as one of the "evil" multinational corporations with less admirable morals. It is therefore of interest to look at diverse matters in this acquisition: why it was concluded despite such differences in corporate images, were there any challenges that were faced because of the differences and what kind of actions were taken regarding corporate image management to secure success.

1.2 Purpose and structure of the study

Although research on the relationship between corporate images and M&As is very limited, M&As and company image both have vast literature bases. This study seeks thus to combine these two theoretical frameworks and thereby establish a basis for this specific area of research. The purpose is to investigate the issues the acquiring company is required to take into account when it is acquiring another company whose corporate image does not match with that of the acquirer. The answers are sought with the help of theories on M&As and corporate image and further by analysing the case acquisition.

The research question will thus be: "What issues are characteristic to M&As with corporate image differences?" It will further be divided into following sub-questions:

- What motives can be identified for M&As with corporate image differences?
- What kind of challenges are related to M&As with corporate image differences and why?
- How to manage corporate image in M&As with corporate image differences?

As already mentioned, the theoretical framework of the study is divided into two parts: Chapter 2 concentrates on M&As, and first introduces the reader to typical features of M&As and gives some background information on them. The second part of the chapter analyses alternatives to and potential motives for M&As, as well as challenges that are connected to them, and introduces M&A-related theories. Chapter 3 begins with an introduction to corporate image and its dimensions moving to theories on corporate image, its management and relationship to strategy. In Chapter 4 research design will be introduced along with research approach, data collected, and evaluation of the study.

Subsequent to the theoretical framework, a casework is carried out by analysing the acquisition of The Body Shop by L'Oréal. The case acquisition will be presented in two parts. Chapter 5 concentrates on case description by first introducing both companies and then carefully examining the acquisition itself. Chapter 6 focuses on analysing the case acquisition and each of the sub-chapters concentrates on one of the research's sub-questions on the level of the acquisition. Hence, the main themes of Chapter 6 are: motives, challenges and their reasons, and corporate image management. Finally, conclusions are drawn in Chapter 7 and Chapter 8 offers a summary of the whole thesis.

2 MERGERS AND ACQUISITIONS

2.1 Introduction to mergers and acquisitions

This chapter introduces the reader to the basics of M&As starting with the related definitions and then giving statistics and explaining trends on the matter. Finally, the acquisition process is described and each sub-goal of this study is linked to the relevant acquisition stages.

2.1.1 Definitions

The concepts "merger" and "acquisition" are often used imprecisely in literature. They are different activities, and it is therefore essential to begin by defining the difference between them. **Acquisition** typically refers to a firm that takes over controlling interest of another firm (Butler, Ferris & Napier 1991, 194), hence buys more than 50 % of target's equity. After this, the target's assets are integrated to those of the acquirer and the target ceases to exist as a legal entity. Acquisitions may also be called takeovers, which are of equal meaning. (Lees 2003, 273.) Jagersma (2000) defines an acquisition as *the result of the combination of two companies of different qualities, not necessarily by mutual agreement.*

Further, in a **merger** there are two companies which combine as a result of mutual agreement (Butler et al. 1991, 194). They then form a new entity and neither of the parties remains a separate legal entity after that (Lees 2003, 273). Jagersma (2005, 14) defines a merger as *the result of the amalgamation of two equal companies. The amalgamation is realised with consent of both parties.*

In brief, M&As may be mergers of separate entities into a new firm or acquisitions of one firm by another (Marks & Mirvis 2001, 80). Out of all M&As about 96 % are acquisitions and only 4 % are mergers, and therefore the expression "M&A" is often used as a synonym to acquisitions. This thesis aims at producing information of M&As, mostly because the majority of the literature in this area also discusses mergers and acquisitions together as one concept. In Chapter 2, the used terms are contingent upon the term used in the referred text, and, because the casework concentrates on a (cross-border) acquisition, this term is preferred in Chapters 5 and 6.

Cross-border M&As are, according to OECD's report *those undertaken between firms of different national origin or home countries* (New patterns of industrial globalisation 2001, 14). In this thesis, M&As refer to M&As in general and when the infor-

mation is specific to domestic (undertaken inside one country) or cross-border M&As, it is stated clearly. The case acquisition has for the most part been analysed as an acquisition in general, but in some parts the cross-border dimension has also been concentrated on. However, this is always clearly stated.

2.1.2 M&A trends

At the moment, we are experiencing a new peak of M&A activity. There is a wide consensus that M&As occur in waves, which we have already seen five of. The latest wave took place in 1994–2001 (Ali-Yrkkö 2002) and broke all global M&A records: the aggregate value of the M&As completed during the three peak years 1998–2000 was US$4 trillion (€2,7 trillion), which exceeded the total value of all the M&A activity in the preceding 30 years (Henry 2002, 60). Another source reports that in 2000 a total amount of 37 000 M&As occurred in the world valuing US$3,5 trillion (€2,4 trillion) (Javidan, Pablo, Singh, Hitt & Jemison 2004, 245).

The figures of 2005 were already quite close to those of 1999 and a new wave is thus considered to be happening currently (World investment report 2006, 13). The value of cross-border M&As increased by 28% in 2004 and by 88% in 2005 and they have grown in number since 2002 (World investment report 2006, 3). The same trend could be seen in the first half of 2006, when cross-border M&As' value rose by 39% in comparison to the same period in 2005 (World investment report 2006, xxii). Figure 1 shows the beginning of this new trend.

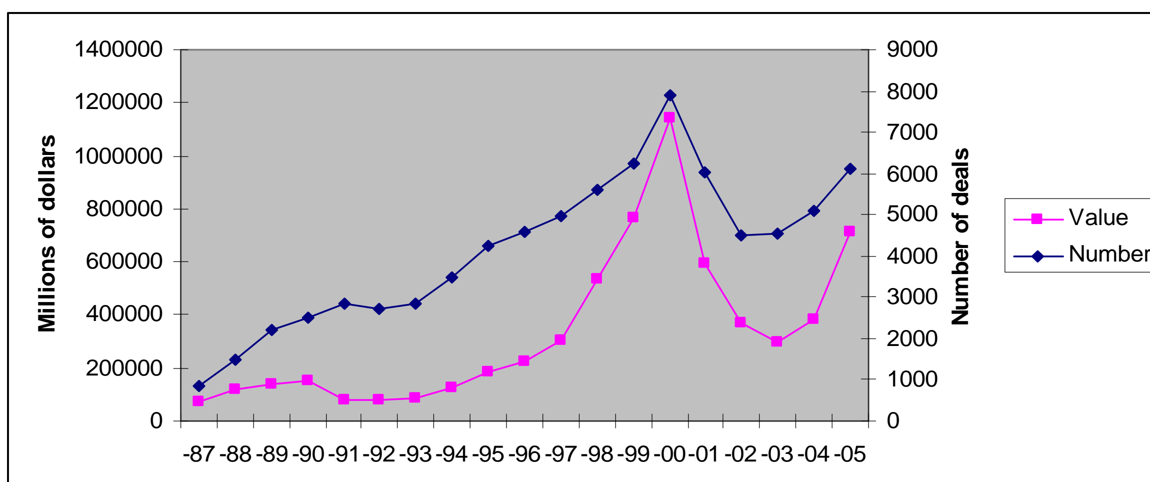

Figure 1 The value and number of cross-border M&As[1]

[1] Figure is based on information of World investment reports from various years.

Figure 1 demonstrates that, during the recent years, cross-border M&As have increased more in value than number. Mega deals (deals worth more than US$1 billion) have thus played a major role in this new wave: their value in 2005 was twice the previous year's value and their proportion of all cross-border M&As was 63% (World investment report 2006, xvii). As the average value of cross-border M&As is growing, it is becoming more usual to conclude M&As through share exchange in order to decrease the need for cash and to minimise capital gain associated tax payments (World investment report 2006, 13–14).

According to UNCTAD's World investment report 2000, during 1980–1999 the annual growth of all M&As, cross-border and domestic, was 42%. At the same time, the total share of M&As' value of world GDP increased tremendously; from 0.3% to 8%. In the 1990s, of all M&As made, cross-border M&As' share remained relatively stable averaging at 25% (in value and in number). (World investment report 2000, xix.)

Unlike the previous M&A surge, the 2005 wave was not fuelled by the *dot com* -boom or by the financial markets. Now M&As were strategic choices for transnational corporations, based on the opportunities created by the economic growth, and the recovery of stock markets, which resulted in the relatively large amount of mega deals as well as in the concentration of M&As in certain industries. (World investment report 2006, 14–15.)

Although waves of M&A activity mirror company strategies, latest economic, technological, and governmental changes have been demonstrated as the driving forces (New patterns of industrial globalisation 2001, 38). There are various **economic factors** influencing M&A supply and demand: Rapid economic growth and high stock prices enable M&A booms due to the availability of more capital and the possibility to finance the deal with shares. Contrariwise, less economic expansion as well as market uncertainty and unstable stock prices lead to smaller M&A activity. (New patterns of industrial globalisation 2001, 39–40.)

Technological changes refer to new information and communication technologies which facilitate expansion across borders and have changed market conditions considerably. Technical competence is now acknowledged as a strategic company asset, and with the combination of rapidly rising R&D costs and uncertainties over technological change, there is more need for co-operation, in the form of acquisitions and strategic alliances. Meanwhile, costs for communication and transportation along with those for creating and preserving co-operative relations are decreasing, enabling bigger companies to be manageable and encouraging firms to network. (New patterns of industrial globalisation 2001, 38–42.)

There are also a number of **government factors** affecting M&A activity, such as market liberalisation, deregulation and regulatory reform. Major facilitators for M&A

deals have been the liberalisation of international capital movements and FDI in the 1990s as well as the opening-up of typically regulated industries (e.g. telecommunications, electricity and finance). However, some regulations exist that may obstruct M&As, such as anti-trust laws, which have lately been paid an increasing amount of attention. (New patterns of industrial globalisation 2001, 43–44.)

2.1.3 Acquisition process

It is important to understand the anatomy of an acquisition and the different stages which the acquisition process is composed of, because the three main themes of this thesis (i.e. motives, challenges, and image management) are not all equally important in all the stages.

The acquisition process is usually divided into three or more phases or stages, most typically into pre-acquisition stage, acquisition stage and post-acquisition stage. The categories that Marks and Mirvis (2001, 81) use instead are: pre-combination phase, combination phase, and post-combination phase, whereas Hitt's process framework (presented by Javidan et al. 2004, 252–256) includes the following stages: (1) strategic thinking and target identification, (2) due diligence, (3) negotiations, and (4) post-merger processes. However, there are little differences between different models on acquisition process; in principle they only differ in how they divide the actions between the stages.

I will introduce in more detail Erkkilä's (2001, 24) model that distinguishes four key stages:

1. acquisition strategy
2. scanning for targets and preliminary due diligence
3. acquisition stage
4. publishing the acquisition and integration of the target

Strategy can be regarded as the backbone to an acquisition and for instance scanning for potential targets, defining which pieces of information will be collected of the target by due diligence, and communication at the integration stage are based on it. Precise planning should always take place before an acquisition and there should always be a strategic reason to buy a certain company. It is essential that there are explicit strategic objectives derived from the firm's vision, which then can be further communicated to all personnel involved with the acquisition. The strategy should also be reconsidered after each stage as new information is gained. While planning an acquisition, a firm should also consider its ability and resources to integrate the target to its own activities. (Erkkilä 2001, 24.)

Scanning for potential targets refers to preliminary work that uses data from competitor analyses, firm's own market surveys, and public financial information. This stage (also referred to as **preliminary due diligence**) should include at least mapping of the market environment, the competition situation and possible target price, as well as an estimation of potential synergy advantages, the financial development of the integrated firm (for 3–5 years) and the target's means to contribute to fulfilling the firm's vision. The level of detail in planning depends on the importance of the deal as a part of the firm's strategy, the scope of the target's business activities, and the resources of the acquirer. However, the more thoroughly the firm has defined what kind of a firm will help it to pursue its strategy, the better are the chances to a successful acquisition and integration. (Erkkilä 2001, 25.)

The role of **acquisition motives** is highlighted in these two stages. Firstly, it is essential that the motives and objectives to the acquisition along with the acquisition strategy are all in line with each other. Acquisition of a company with a different corporate image should thus be motivated in a way that fits the overall strategy. Further, the target scanning (preliminary due diligence) is greatly affected by the acquisition motives, as the acquirer has to find a company that can help it to achieve the objectives of the acquisition. In this stage also the corporate image differences have to be addressed and the acquirer must decide what kind of a challenge they will present and if they can be overcome.

The **acquisition stage** is considered to begin when the target has been selected and the acquiring firm contacts the target. The target might also have come for sale or it might have been offered to the acquirer with exclusive rights. The objective of this stage is to discover if a deal creating value added to the acquirer at a reasonable price will be made. Another objective of the stage is to collect the maximum of information in order to accelerate the integration. As a result of this stage, the acquirer may either withdraw the deal or decide to proceed, in which case a preliminary business plan for the integrated company should be created. (Erkkilä 2001, 26.)

According to Erkkilä, the integration stage can be divided into two sub-stages which both have different activities under them. The first sub-stage is groundwork for the integration which is laid already during the previous stage simultaneously with due diligence, and is followed by **publishing and sealing the deal**. The other sub-stage is **implementing the integration**, including (a) the takeover phase which lasts for the first 100 days, (b) a phase in which the proper integration of activities is done (from takeover to the integration of the whole organisation), and (c) the final phase during which corporate cultures are integrated. It should however be noted that this order is not considered optimal by all authors; for example Birkinshaw, Bresman and Håkanson (2000, 419) recommend the opposite order between the integration of activities and corporate

cultures[2]. The depth and extent of integration depend on various factors, such as acquisition strategy and acquisition objectives, but both adaptation to change and development of new activities are always time-consuming. Although a lot of academic literature exists on the subject of post-acquisition and integration, in this context no further description of them is considered necessary. (Erkkilä 2001, 27.)

Management of corporate image in M&As concentrates on the two final stages, with emphasis on the last stage. At the latest during the acquisition stage it should be decided if the acquisition can be successful in spite of the corporate image differences. Further, while formulating a preliminary business plan for the integrated company, the image management questions should also be considered. The publishing of the deal is a critical stage and its execution should be carefully planned. Additional attention should also be drawn to the public's reactions to the image differences and, if they lead to a crisis, it should be managed effectively according to a pre-designed crisis management plan. Crisis management is discussed in more detail in Chapter 3.2.4. The integration phase is the most important stage in corporate image management, and it could be assumed that the more different the corporate images are, the more they require management in this stage. The degree of intended integration, however, affects greatly the management; it might be a considerably more complex task to totally integrate the two companies and their images if compared to the conservation of separate units. Corporate image management is further discussed in Chapter 3.2.3.

Lastly, various **challenges** are related to all the stages of M&As, but different challenges are characteristic to different phases, for example, the challenges related to acquisition decision making and to the integration process differ essentially from each other (cf. Chapter 2.2.2). The whole following chapter (2.2) concentrates on M&A-related challenges, and they will therefore not be further discussed here.

2.2 M&A-related challenges and acquisition motives

This chapter describes matters that are in contradiction of concluding M&As, such as their high failure rates and various challenges connected to them, and then presents a range of alternatives for achievement of the same goals. Finally, this chapter gives diverse motives for M&As, both in form of acquisition theories and studies conducted on this subject.

[2] Author's note: This issue is further discussed in the following chapter.

2.2.1 High failure rates of M&As

Although M&As are very popular at the moment, they deliver value quite rarely with an estimated failure rate of 40–70 % depending on the source. A merger or an acquisition is deemed a failure if it does not improve a company's performance or does not meet the standards required by managers (Anderson, Havila & Salmi 2001, 576). According to Capron (1999) while 50 % of domestic acquisitions fail (or do not deliver the planned outcome), the same percentage is 70 for cross-border acquisitions. For example Kitching (1974) has studied acquisitions in Europe and discovered that the failure rate of American acquirers was 50 % while that of European acquirers was 46 %. In a study by Bleeke, Isono, Ernst and Weinberg (1990, 47) the failure rate was 43 % but the lowness of it was explained with the sample's high level of acquisitions in core business (which according to the authors are more successful than average). Hubbard and Purcell (2001, 17) point out that different methodologies have been used in numerous studies on acquisitions, but they have consistently resulted in judging approximately half of all acquisitions failures.

Many scholars have tried to explain the relatively low success rate for M&As and various reasons have been offered. Problems in M&As might be related to strategic market entry mode, market valuations, value creation and firm performance; and Aguilera and Dencker (2004, 1355) summarise that these difficulties are caused by non-existence of an exigent and strategic motivation, over-expectations of potential synergies and over-payments for targets. According to Gilkey (1991, 331) the failure rates are so high because M&As are primarily executed with business and financial fit in mind while cultural and psychological questions are left in a secondary position. If the latter were given more attention, companies could learn a lot about successful management of M&As. Also Quah and Young (2005, 65) emphasise that the importance of combining different organisational cultures and management process systems are crucial to causing problems in M&As. Birkinshaw et al. (2000, 419) discovered in their study that human integration process[3] makes the task integration process[4] more effective. Thus, a company will in all probability face M&A-related challenges and the acquisition will be less successful if task integration is pursued before human integration process. It has been stated that as many as a third to a half of M&A failures are caused by problems related to soft issues (Marks & Mirvis 1982), including corporate image issues, which raises the question of motives to conclude an acquisition of a company

---

[3] Human integration refers to the process aiming at a shared identity between the employees of the merging companies (Birkinshaw 1999, 34).

[4] Task integration refers to the way in which the value-adding activities of the merging companies are combined (Birkinshaw 1999, 34).

with a very different corporate image. Motives will be further discussed in relation to the case acquisition in Chapter 6.1.

Although the importance of these *soft* issues to acquisition success has recently been emphasised in literature, other explanations to high failure rates have also been offered. Post-acquisition integration is held in high importance to M&A success by many scholars (e.g. Schweiger, Ivancevich & Power 1987) and for example Hunt, Lees, Grumbar and Vivian (1987) discovered that the implementation success correlated positively with the overall success of M&As in 83 % of cases. Accordingly, in their research implementation success was the most significant variable in success and failure. Another crucial factor for an acquisition to become a success is business strategy fit (e.g. Chatterjee 1986), which enables maximisation of synergies. However, it is not probable that a single factor exists making an acquisition a success or a failure but that it is decided by a sum of various factors (Hubbard & Purcell 2001, 17).

As already mentioned, cross-border acquisitions are regularly considered to fail more often than domestic ones. In fact, while cross-border acquisitions struggle with the same problems as the domestic ones, they also face problems related to politics, culture, language, national regulations, and geography (Angwin & Savill 1997, 427). All these issues add to the difficultness and riskiness of cross-border M&As (Quah & Young 2005, 65).

2.2.2 Challenges related to M&As

This chapter will describe in further detail typical process-based challenges that are related to **acquisition decision making** (pre-acquisition stage) and **integration process** (post-acquisition stage) that have been presented by Haspeslagh and Jemison (1991). The first type of problems tend to prevent managers from understanding strategic and organisational fit properly while problems in integration process often obstruct the joining companies' capacity of creating an environment for capability transfer.

Challenges in acquisition decision making include (a) fragmented perspectives, (b) increasing momentum, (c) ambiguous expectations, and (d) multiple motives. Some of these challenges might explain to some extent why companies with different corporate images are acquired: in addition to consciously conducting such an acquisition, some companies might drift into it less intentionally. Additionally, Haspeslagh's and Jemison's (1991) descriptions give insight of various challenges that are related to the pre-acquisition stage.

Firstly, it is extremely typical that there are numerous specialists of various expertise involved in the pre-acquisition phase, but that they work isolated from each other and

often come from the outside of the company. This tends to lead to a **fragmented picture** of the acquisition in whole, because it is very difficult for the senior managers to compare and integrate all the individual analyses and opinions. Hence, more attention is given to easily quantified issues at the cost of more qualitative matters, which then can lead to serious problems in later phases of the acquisition. (Haspeslagh & Jemison 1991, 58–61.) Therefore, also corporate image differences might be neglected – along with other soft issues – in the acquisition decision making process. It is a significant challenge for managers to avoid this concentration on quantitative issues and to pay regard to corporate image differences.

Increasing momentum refers to the difficulty of stopping or even slowing down the acquisition process once it has started. While the tempo, pressure and involvement increase ceaselessly, it becomes more and more difficult for participants to stop or even slow the pace. The main factors that build momentum in the acquisition process are increased personal commitment, secrecy and intense concentration, and outside advisers. (Haspeslagh & Jemison 1991, 61–66.) The impact in relation to corporate image differences might be similar to the previous challenge, because if differences in corporate images are noticed in the pre-acquisition stage, increased commitment might keep the process going regardless of potential doubts towards it. Again, the challenge is to not to rush through the pre-acquisition phase, but to solve potential problems in relation to corporate images.

Ambiguous expectations refer to issues that are agreed to be dealt with later on, in order to accelerate the conclusion of the deal. The parties might even agree to disagree on some matters, which only foretells postponing the problems to a phase in which it is too late to withdraw from the acquisition. (Haspeslagh & Jemison 1991, 66–68.) This challenge might also cause some disregard of corporate image issues if questions connected to it are agreed to be dealt with later on, potentially resulting in misinterpretations in this regard. Managers are thus challenged to sort out all the important matters before concluding the deal and avoid the temptation to overlook things.

Finally, a similar phenomenon to ambiguous expectations, but happening inside the acquiring organisation is called **multiple motives**. This means that during the internal negotiations, different stakeholders may be given slightly different prospects on the situation after the acquisition in order to facilitate the conclusion of the deal. However, these issues then have to be managed afterwards and can cause various problems in the post-acquisition phase. (Haspeslagh & Jemison 1991, 68–69.) This phenomenon is not considered to explain acquiring a company with a different corporate image, but it apparently offers another challenge for the managers.

The major challenges in acquisition integration are (a) determinism, (b) value destruction, and (c) leadership vacuum, which, according to a research by Haspeslagh and

Jemison (1991), together explain the failures in acquisition integration to a great extent. As already mentioned, the acquisition justification tends to be quite simplified and general in order to get the support of everyone involved. However, during the post-acquisition phase new information will arise and unexpected things will happen and the **determinism** created by the managers' inability to adapt their original justification to the new circumstances can be very harmful for the company's future. (Haspeslagh & Jemison 1991, 124–129.) Consequently, the challenge for the managers is to adjust themselves to the new conditions. These arising unexpected things might in some cases also be related to corporate image issues, although the image tends to be evident already before the conclusion of the deal.

Value destruction weakens the employees' will to work for acquisition success, because they are supposed to give more while gaining less or even losing value themselves. Economic value destruction refers to loss of jobs, job security and/or benefits due to the acquisition. Psychic value is destroyed through rumours, presumptions, actions and decisions (real or imagined) that have a direct effect on the employees. (Haspeslagh & Jemison 1991, 129–132.) Managers should therefore minimise this kind of value destruction to employees in order to preserve their work spirit, at least through proper communication. Corporate image differences are not, however, regarded to amplify this challenge.

Finally, after the deal is concluded, the senior managers tend to concentrate on other matters instead of managing the post-acquisition phase. Among the employees, this **leadership vacuum** easily leads to a poor understanding of the acquisition's purpose and their role in it, which in turn tends to come out as regression to the old and familiar behaviours, which obviously does not contribute to the integration. (Haspeslagh & Jemison 1991, 132–135.) It might be possible that this problem is worsened by image differences, especially if the degree of integration is intended to be high. Regression to the old and familiar behaviours can be very harmful in respect to the integration of two companies with different corporate images, and therefore fundamentally also of different corporate identities. Then again, in case of less integration the challenge would probably be smaller. However, after the deal is concluded, managers should especially concentrate on potential image differences, instead of focusing on unrelated matters.

2.2.3 Alternatives to M&As

This chapter presents various alternatives to M&As because, in order to be able to speculate the motives behind M&As, it is important to understand what kind of alternative ways there are to achieve the same goals. Mergers and acquisitions tend to be re-

garded as one of the alternative modes to gain either market entry or growth. Alternative **entry modes** to M&As can be divided into equity-based choices and non-equity-based choices (Pan & Tse 2000, 535). Equity modes of entry are preferred if the ownership advantage is transferable without loss of its value. Similarly, if the transferability is poor, non-equity modes of entry are more preferable. (Erramilli, Agarwal & Kim 1997, 738–739.)

The hierarchical model of market entry modes (see e.g. Pan & Tse 2000, 535–538) suggests that managers' decision-making follows a hierarchy in which the first level is a decision between equity and non-equity modes. The model is based on the idea that there are only a few critical factors for managers to consider at each level. After the first decision, managers choose a more specific mode within non-equity modes (either export or contractual agreements) or equity modes (either equity joint ventures or fully owned subsidiary). And finally, each of these modes comprises different types of entry modes: there are direct, indirect and other type of export as well as contractual agreements that are split into licensing, R&D contracts, alliances, and other types of agreements. Equity joint ventures can be minority, 50% shares, and majority, whereas wholly owned subsidiary is divided into greenfield, acquisition, and other types of wholly owned subsidiaries. These decision levels are shown in Figure 2 for the sake of clearness.

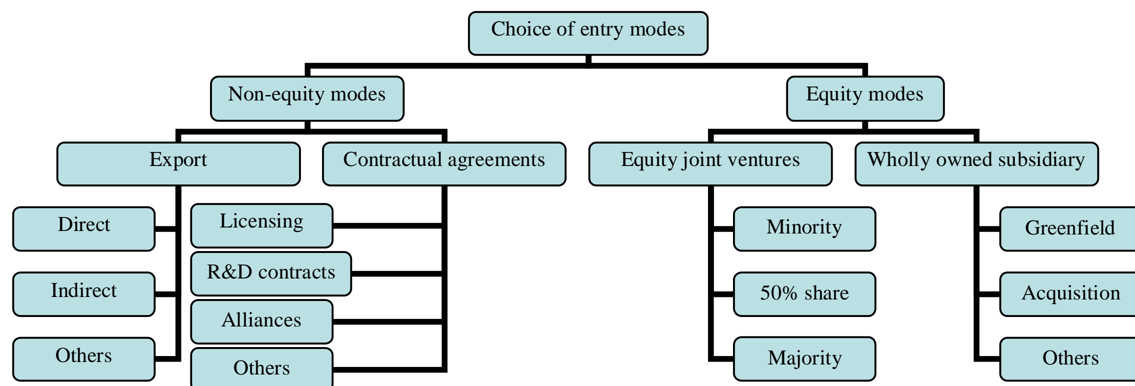

Figure 2 Hierarchical model of choice of entry modes[5]

Another way to look at the alternatives for M&As is to compare different ways of gaining **company growth**. These alternatives to mergers and acquisitions will be briefly introduced in the following.

[5] Source: Pan & Tse 2000, 538.

Growth opportunities can be categorised in different ways. We can for example distinguish between internal and external means (Weston & Weaver 2001, 121) or organic, inorganic and external growth options (Sherman & Hart 2005, 10). Weston and Weaver (2001, 121) suggest that the whole firm's organisation system has to be reassessed continuously in order to be aware of what can be achieved from its internal resources. An important advantage of internal growth is the avoidance of the integration-related problems of M&As. Also possibilities for complementary external strategies need to be observed at all times. These external strategies include in addition to M&As for example joint ventures, alliances and partnerships, and licensing – of which the two first ones form the most important alternatives to M&As (Weston & Weaver 2001, 122).

A **joint venture** is a new company, partnership or other form of a business entity established by two firms who continue their independent businesses as usual. Unlike in M&As, it involves only a smaller part of both companies' activities and its length and extent are limited. Typical objectives for joint ventures are splitting risk and investment as well as possibilities for economies of scale or knowledge gaining. A joint venture can also serve as an intermediate stage before an acquisition; for example, a firm may buy 40–45 % of a divested segment, then learn about it from the partner company and finally, after a couple of years buy the rest of the segment to itself. (Weston & Weaver 2001, 123–125.) In **alliances and partnerships** the parties can be of extremely differing sizes and there may be several companies taking part in an alliance. Alliances are not as formal as joint ventures and therefore mutual trust is an essential element of an alliance. The advantages of alliances in comparison to M&As include flexibility and informality, and the relatively small investments, which however may grant access to new markets or technologies and to great synergies. For larger firms an alliance may provide access to creative employees who would not want to work for them directly. (Weston & Weaver 2001, 125–128.)

Licensing means allowing another company to use one's know-how (and possibly also equipment) in return for royalty fees. For the licensor the advantages include considerable revenue by royalties against a small additional investment, and possible acceleration of its entrance to newer markets. The licensee gets new production lines (that might fit very well to the existing production and marketing policies) and it may also gain knowledge over the licensing contract; potentially allowing it to become a competitor to the licensor afterwards. (Weston & Weaver 2001, 128–129.) As an alternative to M&As, licensing is a less costly way to gain market entry or growth. However, instead of buying a competitor, the company might end up creating a new one.

Some research exists comparing the success of M&As with its main alternatives: joint ventures and greenfield investments. For example Nitch, Beamish and Makino (1996, 40) discovered in their research of Japanese subsidiaries in Europe that the per-

formance of those concluded through acquisitions was inferior to those using joint ventures and greenfield investments. According to them, the greenfield mode had the most gains when compared to losses, joint ventures were close by, and acquisitions, at best, had a mixed performance. Quite similarly, Li and Guisinger (1991, 219–220) concluded that M&As and joint ventures failed in a higher probability than greenfield ventures and explained this with the high transaction costs that are involved with M&As and joint ventures, especially during the negotiations and post-acquisition integration.

These research results develop further the problem presented in the first research sub-question: if the failure rates are high already in M&As in general and there are other, less riskier ways of reaching the same goals, what could possibly motivate acquiring a company with a different corporate image? The next chapter begins investigation on this matter by introducing diverse M&A motives.

2.2.4 Motives to M&As

Despite the before mentioned high failure rates and potential challenges related to M&As, the strategy seems to gain more and more popularity. Therefore, it is particularly interesting to look at different theories that seek to explain why M&As are concluded. Although M&As usually are executed as a result of a bundle of motives and therefore it rarely is the case that only one motive would encourage a firm to acquire, various researches on the most important M&A motives exist. This chapter aims at presenting both theory and research on this field.

Various classifications of M&A motives exist and therefore no absolute truth on this matter can be offered here. However, we will look at these motives based on Trautwein's (1990) classification, which is one of the best-known merger motive categorisations. Trautwein (1990) presents seven different theories of merger motives, divided into three categories: merger as (a) rational choice, (b) process outcome, and (c) macroeconomic phenomenon. The first category (merger as rational choice) is further divided depending on who benefits of the merger, shareholders or managers. Theories, in which the bidder's shareholders are those benefiting of the merger, comprise net gains through synergies or through private information as well as wealth transfers from customers or from target's shareholders. These theory categories for merger motives are presented in Table 1.

Table 1 Theories of merger motives[6]

Merger as rational choice	Merger benefits bidder's shareholders	Net gains through synergies	Efficiency theory
		Wealth transfers from customers	Monopoly theory
		Wealth transfers from target's shareholders	Raider theory
		Net gains through private information	Valuation theory
	Merger benefits managers		Empire-building theory
Merger as process outcome			Process theory
Merger as macroeconomic phenomenon			Disturbance theory

The first theory according to Trautwein's (1990, 284–285) categorisation is called **efficiency theory** and its main hypothesis is that acquisitions are motivated by synergies, which can be financial, operational or managerial. This theory is probably most often referred to in justifications to M&As; in fact, most of the financial and business motives have efficiency theory as their basis. However, in Trautwein's view, while size advantages seem to indeed exist in the capital market, operational and managerial synergies do not appear to be realised very often.

Monopoly theory is based on market power as a motive to an acquisition and it can be applied not only in the case of horizontal but also conglomerate acquisitions. A company might for example attempt to keep away potential competitors by acquiring them. (Trautwein 1990, 285–286.) Not surprisingly, acquirers rarely announce exercising the monopoly theory, and probably therefore research on M&A motives has not really found evidence on companies using it.

Raider theory is discussed in particular in business press. The theory's basic idea is wealth transfers from the target's stockholders through greenmail or excessive compensation after a successful takeover. This theory has, however, not gained any evidence – probably partly because of the same reasons as monopoly theory – and according to Trautwein, it suffers from illogicality. (Trautwein 1990, 289–290.)

---

[6] Source: Trautwein 1990, 284.

The thought behind **valuation theory** is that acquiring managers have more accurate information of a target's value than the stock market. The theory suggests that knowledge of a target's specific capability combined with the acquirer's skills and knowledge of an undervalued company would create a competitive edge. Although this theory is in conflict with the assumption of capital market efficiency, there is a lot of evidence of private information being used as an acquisition motive. (Trautwein 1990, 286–287.) Further, certain capabilities are often mentioned as acquisition motives while the acquisition objectives are to be achieved by combining them with the acquirer's expertise.

Empire-building theory rests on the idea of managers acquiring in order to maximise their own utility, not that of the shareholders. This theory is based on managerial theories, which in turn have the common idea of managers maximising their objectives within the boundaries set by the capital market. (Trautwein 1990, 287–288.) This theory's evidence also suffers from the companies' desire to rationalise their decisions; hence, empire-building theory is rarely admitted to have been followed. Some evidence of the importance of personal acquisition motives has however been found, and they will be further discussed later on in this chapter.

Process theory's idea is that strategic decisions are not completely rational choices but process outcomes. There are some influences that may govern the processes: Firstly, individuals possess limited information processing capabilities and therefore simplify matters. Secondly, organisational routines lead to using old solutions to solve new problems. Finally, the decision process tends to be dominated by tactical matters and mutual adjustments. The lack of research results on this theory's use is yet again a consequence of the acquirers' attempts to rationalise their decisions. (Trautwein 1990, 288–289.)

Finally, **disturbance theory** is based on the idea that merger waves are caused by economic disturbances. However, Trautwein does not put much importance on this theory because of several shortcomings in relation to it. (Trautwein 1990, 290.) Lees' (2003, 46–61) **strategy theory** has to a certain degree the same basis as disturbance theory, as they both have general movements as starting point. Lees' theory is based on differing trends of strategic thinking across decades and their effects on acquisition behaviour. Each trend hosted different assumptions regarding the origins of the gains from M&As. The first wave (1894–1907) was characterised by horizontal deals as firms bought their competitors gaining near-monopolies. It was thought that the highest profitability would be gained with the combination of economies of scale and increased market power. The second wave (1920–1929) was then all about vertical deals and companies were buying their suppliers and distributors, this way wishing to decrease risk. In the 1960s, firms were acquiring other firms in unrelated industries and became conglomerates often unintentionally. M&A motives were mainly defensive and the be-

haviour was greatly experimental. The 1970s were characterised by *mega-conglomeration* and firms invested inflows from mature businesses to growing businesses following the Boston Consulting Group's *Growth share matrix* while divesting businesses with small or declining market share in order to avoid inefficiencies. However, it was quickly perceived that diversified firms had a higher probability of failure than those staying in related business, and in the 1980s companies concentrated on their core businesses (i.e. M&As were used to support them). In the 1990s focus moved from products to an entire spectrum of firms' capabilities, which gave each company its unique edge and made imitation very difficult. M&As presented thus a good means to access other companies' capabilities, and this motivated numerous M&As. (Lees 2003, 46–61.)

Seth (1990) distinguishes two types of theories – value-maximising and non-value-maximising theories – that explain M&A motives. The former, also referred to as **synergy hypothesis** (e.g. Seth, Song & Pettit 2000), can be regarded similar to Trautwein's (1990) category of mergers that benefit the bidder's shareholders because its purpose is to maximise the company's value to stockholders. According to this theory, acquisitions are undertaken when a combined firm would be worth more than the two firms are independently. (Seth et al 2000, 388.) Managers are supposed to be able to valuate the targets correctly and to be considering shareholders' interests in their actions. The predicted results of an acquisition are the existence of synergies and growth of shareholders' prosperity, both in the acquiring and target firms (Seth 1990, 100). **Non-value-maximising theories**, also referred to as **managerial** theories (e.g. Seth et al. 2000), assume that managers execute acquisitions only with their own benefit in mind. The manager's compensation may for example be based on the sales of the company and thus an acquisition would mean a raise in salary. (Seth 1990, 100.) Also this theory is similar to a category by Trautwein (1990), namely the one referring to mergers that benefit managers. As a result of the acquisition, there will not necessarily be any value creation and while the prosperity of the acquiring firm's shareholders decreases that of the target firms' rises (Seth 1990, 100). Later, Seth et al. (2000) added one more theory type, **hubris hypothesis**, to the categorisation. It proposes that the managers of the acquiring firm make mistakes when evaluating targets, but supposing that their valuations are correct, they execute acquisitions.

Also the merger motives presented by Baumann (2002, 164) have a lot in common with Trautwein's (1990) classification. According to Baumann (2002) a prerequisite to M&As to occur is a valuation disparity between the acquiring managers and the target's managers, which is consistent with Trautwein's (1990) valuation theory. Further in his opinion, merger motives include monopoly power, economies of scale, synergistic effects, non-profit maximising behaviour, and differences in attitudes toward risk. With **monopoly power** as a motive a firm may seek to achieve market power or power over

price through an acquisition. Baumann (2002) emphasises though that monopoly motive has limited significance in international M&A deals unless an acquisition leads to an oligopoly or a monopoly in a field in which a realistic possibility to price fixing exists. Hence, the motive has more validity on the domestic scene. This motive evidently matches Trautwein's (1990) monopoly theory. As regards **economies of scale** and **synergistic effects**, they both refer to same matters as Trautwein's (1990) efficiency theory. Baumann (2002) argues that market imperfections are a condition to synergies' occurrence and highlights the situation, in which one of the joining firms has underutilised but non-marketable resources, still benefiting the other firm. Further, **non-profit maximising behaviour** refers to situations in which no stockholder control over management exists and desires of gaining growth or expanding sales take control. Thus, the firm acquires based on these motives while neglecting the long-term profit maximisation, which in turn represents the same situation as Trautwein's (1990) empire-building theory. Finally, different **attitudes toward risk** may lead to the acquirer and the target to have differing estimations of the target's value. Hence, the acquirer assessing the target's value higher, than the target does itself might motivate an acquisition, taking the discussion back to valuation theory by Trautwein (1990).

Another way to look at M&A motives is to categorise them based on how the target is related to the acquiring company because each type of M&A tends to have certain motives. The first type is **horizontal** M&A which refers to buying a competitor in the same industry. These deals are often made with synergies and increased market power as objectives (World investment report 2000, 101). Horizontal M&As can be further divided into two subclasses: market extension and product extension. Market extension refers to acquiring a company with the same product in a different geographical area whereas product extension is achieved by acquiring a company with a similar product in the same geographical area. The second type of M&A is a **vertical** deal referring to acquiring a company that lies backward in the supply chain or forward in the distribution chain. Primarily, vertical integration reduces dependency on suppliers and distributors and thereby expands control. (Green 1990, 20.) **Conglomerate** M&A is the last type of deals and means acquiring a firm in an unrelated activity. However, there is some disagreement over whether conglomerate M&As can really produce economies. Suggested examples would be efficient use of marketing or accounting systems, productivity improvement, and capital economies (Green 1990, 20–21), as well as greater economies of scope (World investment report 2000, 101).

Despite of broader classifications of M&A motives, examples of which have just been presented, discussion is often limited to the following types of motives (presented by Hopkins 2002, 90):

- **Strategic** motives,
  (e.g. create synergy, increase market power)
- **Market** motives,
  (e.g. enter a new market, protect market position)
- **Economic** motives, or
  (e.g. establish economies of scale, reduce costs)
- **Personal** motives.
  (e.g. conflicting interests of manager and shareholders, manager's ego)

These motives remain principally the same across various researches. As a general guideline to acquisitions, Weston and Weaver (2001, 39) propose that all policies and decisions concerning M&As should *take place within the general framework of the firm's strategic planning process*. The predominant reason for M&As is in fact that some strategic goals will be achieved more quickly and at a lower expense than the firm would do independently (Haspeslagh & Jamison 1991, 242). However, if the real motives behind an acquisition are personal, non-rational and not based on the company strategy, it is not very likely for the acquisition to become a success because there may not be any real benefits to be gained through it (Marks & Mirvis 2001, 83). A study by Hunt et al. (1987) reveals the reality of M&A deals: only about a third of M&As were stimulated purely by financial and business motives (cf. efficiency theory in Trautwein's (1990) classification). The rest of M&As were executed as a result of many diverse motives, often dominated by personal and political reasons (cf. empire-building theory in Trautwein's (1990) classification). In the study, the most important financial and business motives were: Market share (100%)[7], Technical capability (35%), Management capability (33%), Improve ROI[8] (33%), Synergy/economies of scale (25%), Defending markets (18%), Assets (15%), and Improve EPS[9] (3%). All of these motives are relatively typical and tend to be referred to in the academic literature. Although market share was mentioned as a significant motive to practically all M&As, other financial and business motives were significant only in a third or less of M&As. At the same time, the most important political and personal motives were: Sending signals to City (40%), Chairman insistence (35%), Retrieve "face" (18%), Rise in technology league (15%), Impress competitor (8%), Buying tradition or heritage (8%), "Cash cow" for other bids (5%), and Sort out another problem acquisition (3%). These motives have been paid far less attention to in literature although they were discovered to be significant almost as often as the financial and business motives. The dominating

[7] Percentage of acquisitions where the motive in question was significant.
[8] ROI= Return on investment
[9] EPS= Earnings per share

motive, concern of investors' opinions and a will to send correct signals to the financial markets, was not only significant to a surprisingly high 40% of acquisitions but it was the most important motive in half of those deals. It is also worth noting the irrationality of the second important motive, insistence of chairman: Is it possible for an acquisition to function if the acquirer does not want to undertake the deal? An additional interesting discovery in the field of irrational motives leading companies to acquire can be found in a study by Boucher (1980), which revealed that the major stimulus for M&A deals in the United States was CEO ego.

Also Jagersma (2005) has done some research on the issue by identifying six different motives for companies to acquire abroad and by analysing the importance of these motives, although he has not included other than financial and business motives to his study. The most noted reason was economies of skills (motive for 32 % of cross-border acquisitions by European companies), thus, the acquisition was motivated by the possibility of **sharing** the experiences, skills and capabilities possessed by the target and the acquirer. The second important motive was **expansion** (27 %) because acquisition gives the possibility to quickly gain market growth. Thirdly, 25 % of companies thought the most important acquisition motive was **economies of scale** because by acquiring, it is possible to quickly achieve a critical mass. The fourth important motive (12 %) was **market entry**. Finally, spreading geographic risk (3 %) and financial motives (1 %) (e.g. acquiring a *cash cow* which would allow the financing of other zones) were judged less important motives to an acquisition.

3 CORPORATE IMAGE

3.1 Introduction to corporate image

The annual spending of American companies, on improving corporate image, exceeded US$9 billion already a decade ago (Belch & Belch 1996, referred to in Biehal & Sheinin 1998, 99) and 41–65 % of the companies apply corporate image advertising (Schumann, Hathcote & West 1991, 38). This direction is apparent because while the differences in price, quality, design, and features are fewer, the favourable reputation has a greater effect on purchase decisions (Kennedy 1977, 130). It is thus not astonishing that many of the most successful companies in the world are investing in their corporate images (Dowling 1993, 101).

In recent times, corporate image and identity questions have become even more critical and important due to various reasons. Firstly, mergers and acquisitions, alliances, and spin-offs often result in profoundly changed companies necessitating new identities. Also the increase in dot.com and new technology companies has generated a large amount of new corporate identities while certain already existing companies have attempted to gain more technology-oriented images through *re-imaging*. (Balmer & Greyser 2002, 72.)

3.1.1 Definitions

There are many concepts that are used interchangeably with image, such as identity, reputation and personality. Although all of these concepts are very tightly connected to each other, they have differing meanings and it is important to begin by defining each of them.

Corporate personality can be defined as the sum of the organisation's characteristics, which differentiate the company from its rivals (Abratt 1989, 67). It is composed of values held by the organisation's employees (Balmer & Wilkinson 1991, 21) and can be described as an expression of the corporate philosophy which in turn, fundamentally comprehends the corporate mission (Abratt 1989, 69–70). In brief, personality is what makes Company X Company X (Bernstein 1984, 56). Markwick and Fill (1997, 399) introduce another interesting idea that helps further describe personality: an identity crisis. It can occur when there is *psychological confusion caused by an inability to reconcile differing elements in one's personality*[10]. Nevertheless, the concept of corporate

[10] Definition by Chambers English Dictionary.

personality has not been used extensively; academic writers only tend to mention personality while concentrating on the other concepts that will be introduced next (Balmer 1998, 975).

Corporate personality determines **corporate identity** (Van Heerden & Puth 1995, 12) through self-analysis, which is used in a company to better comprehend its own characteristics, competences, and sought-after objectives. Self-analysis may happen subjectively and intuitively, being just a perception of corporate personality, or rationally through a well-planned procedure (Markwick & Fill 1997, 401). Corporate identity refers thus to the picture that a company has of itself, to its *sense of self*. It is the core of a company's existence, formed over time and affected by various factors, such as the company's history, values, strategies, personnel and beliefs. (Ind 1992, 19.) Corporate identity summarises the commonly understood characteristics that personnel uses to describe the company's way of approaching its products, working, customers, and investors; thus it describes the fundamental company features. Corporate identity can be perceived on a daily basis in the practices employed by managers in their internal and external connections. (Fombrun 1996, 36.) It is very difficult to change corporate identity because of its profound nature, but it can be communicated to the customers through corporate identity programmes. (Ind 1992, 19.)

Corporate communications refer to the connection between a company's identity and image. The term describes the total of the company's messages from all sources, expressing its image to all of its audiences (Gray & Balmer 1998, 696). Typically, identity and image are considered as the two ends in the communication process: communication is the activity that converts the identity into corporate image (Christensen & Askegaard 1999, 296; Ind 1992, 137). What the stakeholders see after assessing the corporate identity is corporate image (Dalton & Croft 2003, 12).

Hence, **corporate image** is formed in the minds and eyes of customers; Bernstein (1984, 40) aptly defines an image as a *presentation in the mind*. In words of Worcester, corporate image is *the net result of the interaction of all the experiences, beliefs, feelings, knowledge and impressions that people have about a company* (Bevis 1967, referred to in Bernstein 1984, 40). In short, corporate image is the representation of a company held by an audience and based on the aggregate of all received messages (Ind 1992, 21). The audience's impressions of a company may be correct as well as misinterpretations: hence, corporate image is more regularly subjective than objective (Bernstein 1984, 40). A company may wish to relay a certain kind of image of itself but the crucial part in the communication is the reception of the message. Although the company may suppose to be communicating only when it intends to, the fact is that everything a company says or does is considered communication in the eye of the receiver. (Ind 1992, 21.) The corporate image is inaccurate more often than a reflection of

the company's true identity; it may become contorted as a consequence of rumours or a company's attempts to influence the public via advertisement and other types of communication. (Fombrun 1996, 37.)

Whereas corporate image may be changed through communication or structural modifications, **corporate reputation** demands cherishing and stability in image (Markwick & Fill 1997, 398). Reputation is thus a broader concept than image comprising stronger and deeper factors. Corporate reputation can be described as an interpretation of past actions and future prospects of a firm and it depicts a company's general attractiveness to its customers and stakeholders in comparison to its main competitors. (Fombrun 1996, 72.) Based on the American Heritage Dictionary's description of "reputation", Fombrun (1996, 37) defines corporate reputation as *the overall estimation in which a company is held by its constituents*. Balmer's (1998, 971) definition of corporate reputation states that it is *the perception of an organisation which is built up over a period of time and which focuses on what it does and how it behaves*. While a company can consciously design and build its image, a reputation has to be earned through actions. Thus its creation is much more time-consuming than that of a corporate image. (Dalton & Croft 2003, 9.)

To sum up, Figure 3 shows the interactions between these concepts. Personality includes the personnel's values and the company's characteristics, which through self-analysis constitute the corporate identity, the company's picture of itself. Identity is then conveyed through corporate communications to different audiences, who create an image of the company based on all they know about it. When considering all the images a company has had in time and its future prospects, the audiences finally have an idea of the corporate reputation of a certain company.

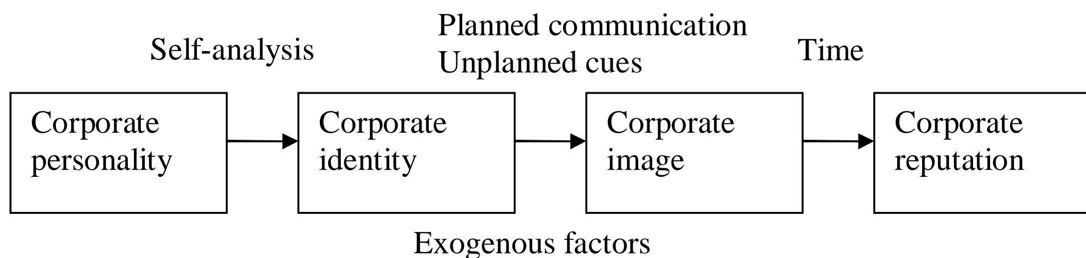

Figure 3 Relationships between corporate personality, identity, image and reputation[11]

[11] Modified from Markwick & Fill 1997, 400 and Gray & Balmer 1998, 696.

Although this thesis concentrates on corporate image, all of the presented four concepts are very closely connected and therefore diverse research on especially corporate identity and reputation are being referred to. The point is to increase insight about corporate image. However, if a referred study has focused on either identity or reputation, it is clearly mentioned in the thesis, because the concepts are not identical and cannot be used as synonyms.

3.1.2 Dimensions of corporate image

Before moving forward to corporate image management, a proper understanding of the formation of corporate image is sought to be achieved. Because consumers may have numerous conceptions about a company (Keller 2003, 9), it is not easy to specify all aspects affecting corporate image. However, many authors have identified diverse factors, dimensions, and associations in relation to corporate image.

Probably the first study specifying image dimensions was conducted by Spector (1961) in the 1960s. He introduces six basic dimensions of corporate image derived from a factor analysis that included 45 characteristics formerly used in psychological tests investigating human personality. The six dimensions are: dynamic, co-operative, business-wise, character, successful, and withdrawn and each of them is complex including a number of characteristics of the same type. To obtain an idea of a certain company's image, these dimensions are first to be ranked by their strength, that is, how strong the company is in each of the dimensions. Then the dimensions' order of importance has to be resolved in order to learn whether the factor in which the company is strong at, is of little or high importance to the consumers. Spector (1961) suggests that the dimensions' ranks in the order of importance might be stable inside each industrial category and that they should be studied.

The factors that Fombrun (1996, 71–72) mentions as contributory to a powerful and positive reputation are credibility, reliability, trustworthiness and responsibility. These are features that a company should possess in the eyes of its constituents to assure the long-term health of its reputation. According to Fombrun (1996), it is therefore the sum of subjective judgements on these factors that shape the reputation of a company. Although there is a conceptual difference between reputation and image, these factors can give us some insight to the formation of corporate image, because, as mentioned earlier, reputation is formed based on corporate image over time. Also Greyser (1999, 179) has introduced six factors that together create a company's total *corporate brand equity score* in a specific country and in relation to its key competitors. The factors are based on 25 solitary image-related questions that were posed to 10 000 executives worldwide

in Opinion Research Corporation International's (ORC) reputation research[12] and that were later grouped with the help of modelling and analytics. The key factors discovered were: competitive effectiveness, market leadership, customer focus, familiarity/favourability, corporate culture, and communications. Each of these factors includes many different attributes, from financial strength to well-differentiated products and to effective advertising.

Another author who has listed examples of corporate image dimensions is Dowling (1986, 112–113). According to him, a company may be known by factors like competent management, quality products, sound financial condition, regular dividend payments, social responsibility, reliability, modernity, technological leadership, development of many new products, being an equal opportunity employer, spending money on R&D, caring about the local community, and helping charities. Dowling concludes that corporate images are *inherently multidimensional* and therefore it is not possible to give a comprehensive list of image dimensions.

Taponen (1970, 23) has identified seven groups of factors looking at corporate image. **Power factors** refer to different ways of measuring the powerfulness of a company, such as size of the company, its economic resources, familiarity, influence, reliability, and personality images. **Activity-modernity** factors strengthen instead the active image of a company and include economic growth, growth in size, activity in services and contacts, and corporate democracy. Often companies also seek to create and support traditions through different **tradition factors**, which may be related to the branch, to the family and personalities, to corporate activities, or to the company's age. Rationalising is a very typical feature of a modern company, and **rationality factors** comprise target-orientation and persistence of the activity, rationality of the activity, organisation and authority, level of technology and R&D as well as information, publication, and the opinions and influence of external experts. It is also important for a company to be regarded as ascertainable, necessary and worthwhile, which can be enhanced through **relevance factors** including purpose of the corporate activity along with economic and social function of the corporate activity. **Individuality factors**, including both visual appearance and individuality in corporate actions, indicate whether a corporate image contains personality or is seen merely as cold numbers in the eyes of consumers. Finally, **uniqueness factors** express the distinctiveness of a company as well as the extent to which a company is differentiated from its competitors, and it is evaluated based on everyday activity, technology, products/services, and information and advertising. According to Taponen (1970, 23), other factors and classification bases definitely exist but the ones mentioned are comparable because they are of an equal

[12] Greyser served as a non-executive director on the board of ORC and worked on the conceptual development of ORC's corporate reputation practice in 1999.

weight. Because a corporate image cannot be built on a single factor, there has to be some selection and emphasis on certain dimensions. If the corporate image comprises too many factors of equal strength, the whole remains too feeble. It can be suggested that a corporate image comprising too many dimensions loses its identity.

These are only examples of various classifications of corporate image dimensions. Essentially, stakeholders assess a company in all thinkable areas and therefore it is not possible to construct a comprehensive list of factors. The dimensions will be further discussed in Chapter 3.2.3 in association with corporate image management.

3.1.3 Corporate communications

It is essential to also understand how corporate communications function because it forms the nexus between corporate identity and the desired corporate image and/or reputation, giving it a position of particular importance to a company (e.g. Scholes & Clutterbuck 1998, 228). Therefore, this chapter concentrates on different types of communications and the various audiences and channels of it. If a company lacks communication skills, its opportunities to affect the corporate image are limited. Gray and Balmer (1998, 696) define corporate communications as follows:

Corporate communications is the aggregate of messages from both official and informal sources, through a variety of media, by which the company conveys its identity to its multiple audiences or stakeholders.

An essential thing to notice about the definition is that corporate communication refers to all communication; even to messages the company was not intending to send or did not realise it was sending. A company is in fact communicating to all of its publics through everything it says or does (Ind 1992, 21). Because the audience builds ideas based on communication, whether planned or unplanned, and the company image therefore is influenced by it, every company should adapt a holistic view of the communication process (Bernstein 1984, 118).

Van Riel (1995, 8–14) has suggested that corporate communication comprises three types of communication: management, marketing, and organisational communication. **Management communication** focuses on organisational members and exists often in form of commandments, supervision, and incentives. **Marketing communication** focuses on consumers and aims at building interest and awareness for the company's products and/or services. The marketing department has a set of tools for these purposes, such as advertising, sales promotion, and product PR. **Organisational communication** typically has various focus groups because of a web of interdependent relationships between a company and individual constituencies (e.g. stockholders, employ-

ees, suppliers etc.). Furthermore, a lot of corporate level communications are contained in this form, for example investor and corporate public relations, employee and recruitment communications. (Balmer & Greyser 2003, 144.)

In order to gain a better understanding of corporate communications as a whole, a **communication wheel** will be introduced. It has originally been designed by Bernstein (1984, 117–124), and further updated by Balmer and Greyser (2003, 141). First of all, there are nine audiences to which a company communicates: internal, local, influential groups, trade, the government, the media, financial, customers, and the general public. According to Balmer and Greyser (2003), two additional audiences exist: business partners and prospective employees. Further, there are nine channels that a company may use: product, correspondence, public relations, personal presentation, impersonal presentation, literature, point of sale, permanent media, and advertising. Balmer and Greyser (2003) have updated this model by adding two totally new channels: sponsorship and new media, and by extending PR to include corporate marketing, and correspondence to include direct marketing. Figure 4 presents the updated wheel in which the different communication channels and audiences can be seen.

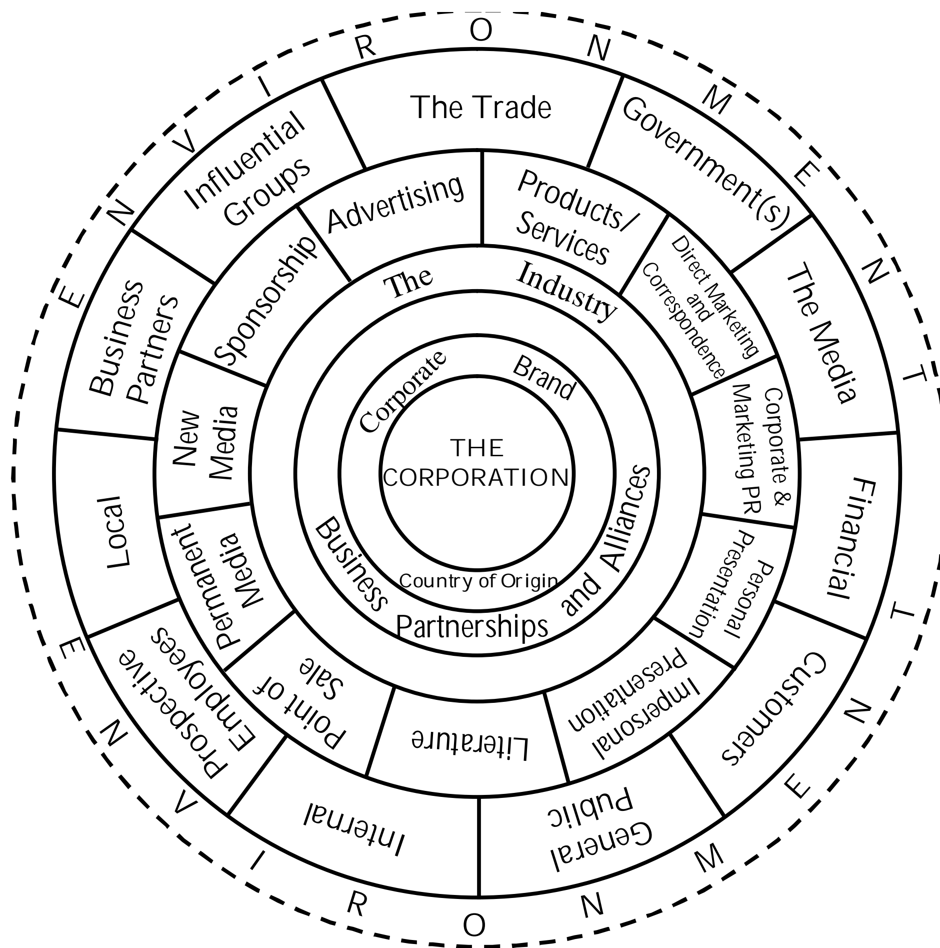

Figure 4 The updated corporate communications wheel[13]

It is notable that none of the channels are linked to any of the audiences but in principle, each combination is possible. Although some of the combinations might be unreasonable, it is beneficial for the corporate communicator to think out of the box, which could possibly lead to innovative ideas. The communicator may also be inspired to consider corporate communications as a totality, which can lead to improved coordination. (Bernstein 1984, 118.)

Two of the inner circles, **industry** and **country of origin**, existed already in the original version of the wheel. They were included because of their influence in corporate image: each industry and country has their own image and stereotypes that affect companies active in those industries and coming from those countries. (Bernstein 1984, 122–123.) Balmer and Greyser (2003, 140–141) have further added **corporate brand** along with **business, partnerships and alliances** to the inner circles and finally **environmental factors** to the outer circle of the wheel.

[13] Original version by Bernstein 1984, 124; updated by Balmer & Greyser 2003, 141.

3.2 Management of corporate image

3.2.1 Relationships between corporate image, strategy and positioning

In addition to corporate communications, corporate strategy – or more specifically positioning – is the key to creating a desirable corporate image. Therefore, it is useful to understand the connections between all of these concepts before discussing corporate image management.

Corporate strategy involves management of various matters, such as composing businesses, allocating resources between businesses, formulating business unit strategies, controlling business unit performance, coordinating business units, and creating company cohesiveness and direction (Grant 1995, 396–397). It is the general plan connecting the company with its environment. As stakeholder groups form the environment and the corporate image illustrates their opinion of the company, one can actually predict the success of a strategy (in respect to a certain public) by looking at the corporate image. (Gray & Smeltzer 1985, 73.) Thus, corporate strategy and corporate image as concepts are interrelated. When constructing the strategy, it is also important to understand the company's positioning (Ind 1992, 49). Positioning refers to the implantation of a desired image in the minds of consumers, distinguishing the company from its rivals, and it is the most important component when building a desired corporate image (Dalton & Croft 2003, 13) (positioning is discussed in more detail later in this chapter). Hence, it is indispensable to consider corporate image in the strategy planning (Gray & Smeltzer 1985, 73).

For a strategy to be efficient the publics have to understand it correctly and the communicated image has to be positive (Gray & Smeltzer 1985, 73). Perception gaps between identity and image may be avoided through good positioning and therefore if any imbalances occur, the positioning strategy should be re-examined (Dalton & Croft 2003, 13). Another source of imbalance is failure in communication of the strategy, in which case corporate communications have to be focused on. However, companies have to secure that their corporate images contribute to the achievement of their forthcoming strategies. (Ind 1992, 107.)

When discussing images and their strategic roles to a company, one must take into account that there are different images concerning a company. Although this thesis concentrates on corporate image, other important types of image exist, such as product image and brand image, and it is important to separate them from each other (Dalton & Croft 2003, 12). Especially later on in this thesis, when analysing the case acquisition, it is important to distinguish between corporate and brand image, because The Body

Shop’s image in a way transformed from a corporate image to a brand image when acquired by L’Oréal.

As Olins (1983, cited in Bernstein 1984, 47) says: *the brand identity is aimed at one audience – the final consumer – but the company identity is aimed at many*. The same rule can be directly applied to corporate images, because they are based on corporate identities. Barich and Kotler (1991, 95) explain that while **corporate image** refers to how the public assesses the entire corporation, **product image** refers to how a certain product category is regarded, and **brand image** to how a certain brand competing with other brands is perceived. Dowling (1993, 105) suggests that corporate image is affected by images that are super and subordinate because it is part of a hierarchy of images. As noted earlier in relation to the communication wheel, country of origin and industry images can influence significantly consumers’ evaluation of a corporation. On the other hand, product and brand images can also have an important influence to the corporate image. Dalton and Croft (2003, 90) propose further that a good corporate-level reputation is transferable to brand image and reputation over time.

Furthermore, Barich and Kotler (1991, 95–97) have introduced a fourth kind of image for a company called **marketing image**. It refers to the manner in which the public sees the quality of the company’s overall marketing offer along with its marketing mix. The difference in comparison to corporate image is that when a company has a good marketing image, the public is confident of getting high value when buying (in form of good products, reasonable prices etc). Barich and Kotler (1991) claim that a firm may gain an excellent corporate image through being a *good citizen* and communicating that to the public, but an inferior marketing image may practically nullify these efforts because consumers are not willing to ignore for instance product weaknesses, no matter how benevolent a company is.

According to Fombrun (1996, 393) when a company follows a strategy with each key stakeholder group that constantly differentiates it from the competitors, the identification of the company as unique is strengthened and economic value is generated. Consequently, the more carefully a firm follows the differentiation strategy, the more probably key stakeholders will credit it with having a strong reputation (resulting from strong corporate images over time). Dowling (2004, 31) emphasises the role of corporate reputation as a strategic asset and as a source of potential competitive advantage. According to him, it is essential for companies in some industries to enjoy a widely recognised, good reputation. For them, it is strategic in terms of success that the public trusts and has confidence in the company. A good reputation is in other industries attached to a certain company characteristic of particular significance, to the key stakeholder group and/or to the targeted customers. A company just needs to verify that this

good reputation is dynamically supportive of the areas in which it is actually competing (Dowling 2004, 34).

According to Hankinson and Cowking (1993, 1), a brand's **positioning** *defines the brand's point of reference with respect to the competition.* Another definition for positioning is offered by Kotler (2003), namely that it is the *act of designing the company's offer and image so that it occupies a distinct and valued place in the target customers' minds*. Also Balmer and Greyser (2006, 736) have a similar definition for positioning, it being the *organisation's position relative to its competitors*, however they further specify that it covers size, geographical coverage, product, and service range.

An organisation's **desired positioning** in the minds of its key constituents is one of the most crucial strategic decisions encountered by managers. They have to choose the organisational characteristics and features that are to be focused on and communicated to the key stakeholders. This set of organisational elements – which the constituents are desired to perceive as the most relevant attributes – forms the **intended image** of a company for that specific group of stakeholders. (Brown et al 2006, 103.)

In positioning a desired image of products and services – differentiating them from rivals' products and services – is thus implanted in the consumers' minds. Positioning can in fact be regarded as the principal component in building a desired corporate image. (Dalton & Croft 2003, 13.) Finding a direction for marketing strategy is facilitated by good positioning of the brand because it sheds light on issues such as the brand's essence, points of uniqueness and similarity in reference with competing brands, and purchase and consumption motives (Keller 2003, 120). It is therefore essential that company strategy is based on a deep comprehension of the company's positioning (Ind 1992, 49); decisions concerning positioning and segmentation are predominant to the elaboration of a global marketing strategy (Hassan & Craft 2004, 83).

Keller (2003, 136–150) introduces guidelines for performing brand positioning. The first stage is defining and communicating the **competitive frame of reference** which refers to deciding on the category membership; that is with whom the brand competes. Through communication of the category membership the consumers are informed of what kind of objectives could be reached by using the product. The next step is the choice of **points of parity** (POPs) and **points of difference** (PODs). POPs mean attributes in which the brand wishes to be on the same level as the competing brands whereas PODs are the attributes in which the brand wishes to be outstanding compared to them. It is crucial that the PODs are aspects found desirable by the customers but also that the company is believed to be able to deliver them. After choosing POPs and PODs, they have to be **established**. At this stage attention must be paid to the fact that these attributes often are *negatively correlated*, meaning that for example a brand advertised as inexpensive tends to be perceived as a low quality simultaneously. Finally, positioning

needs to be **updated** over time in two ways: by deepening the meaning of the brand and by responding to competitive challenges that are threatening the brand's positioning.

3.2.2 Integration strategies for corporate and product brands

Degree of integration in post-acquisition phase affects corporate image management greatly, making it one of the most important decisions affecting management of corporate image. This decision should therefore be made already before concluding the deal, so that corporate management process can begin as early as possible. This chapter first introduces two different frameworks for corporate identity integration strategies and then moves to strategies for product brand integration.

There are various scenarios of how much integration is optimal after an acquisition; for example Pablo (1994, 803) has suggested that the decision over the level of integration after an acquisition is founded on diverse criteria, such as cultural and political factors and strategic and organisational needs. This chapter introduces models determining the level of integration, inter alia, based on the motives of the acquisition and corporate identities of the joining companies. The four basic strategies for **integrating corporate brands** of combining companies (Company A and Company B) presented by Basu (2006, 29–31) are: One Brand (A or B), Joint Brand (A and B joint), Flexible Brand (A and B separately) and New Brand (C). She also suggests that certain strategies should be used in connection with certain M&A types. Figure 5 shows the integration alternatives and the connections between them and different M&A types.

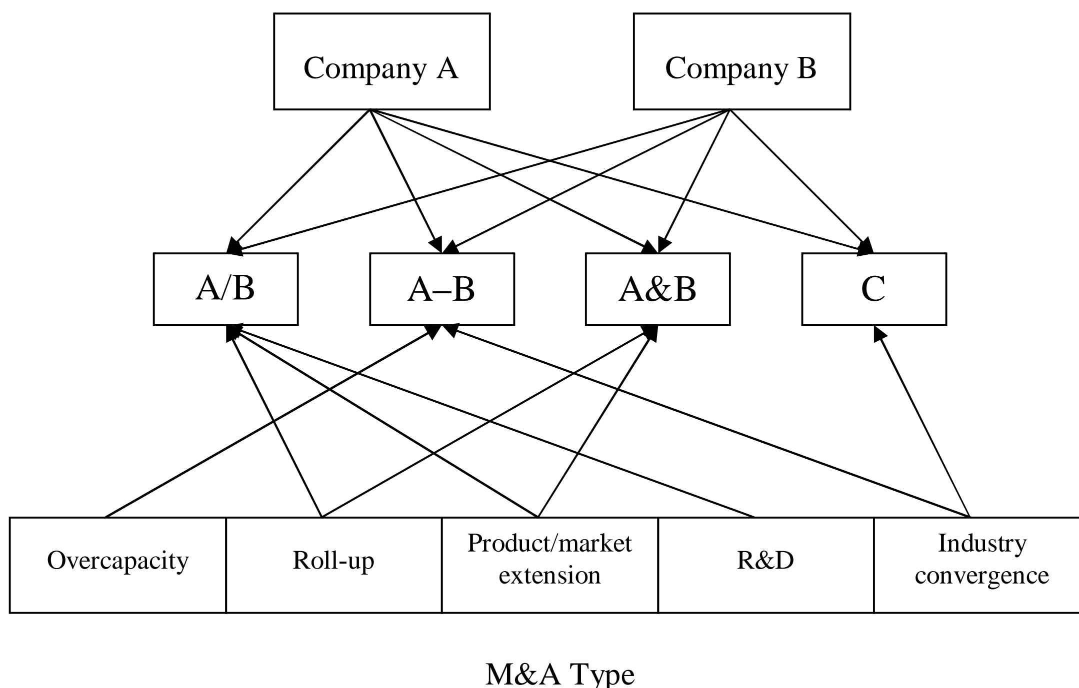

Figure 5 Integrating corporate brands[14]

For example, if the acquisition is motivated by product or market extension, the applicable integration alternatives are to either have both companies under one of the corporate brands (one brand) or to keep these brands separated from each other (flexible brand). However, this framework offers two different alternatives to most of the situations motivating the acquisition.

The second framework has been introduced by Zaheer, Schomaker and Genc (2003, 189–190) who suggest different levels of organisational integration to be undertaken after an acquisition depending on **the relative strength of each company's organisational identity** and the companies' combination potential. Although it is common that in a company there is some feeling of oneness, in certain companies this identification is very strong and in others a lot weaker. The three possible cases when entering M&As are that both companies have strong identities (Case A in Figure 6) or weak identities (Case B) or that one of them has a strong identity while the other has a weak one (Case C). Even though it is often the case that the larger company has the strongest identity, also some small companies inspire intense devotion in their personnel. The other dimension in the framework is **combination potential**, which refers to diverse sources of synergies in the M&A, such as operational, collusive, managerial, and financial synergies. Combination potential can refer to both similarities and complementarities be-

[14] Source: Basu 2006, 30.

tween the companies and it is often the strategic and/or economic rationale for the M&A. (Larsson & Finkelstein 1999, 4–5.) Figure 6 illustrates the alternative integration strategies according to the framework by Zaheer et al. (2003).

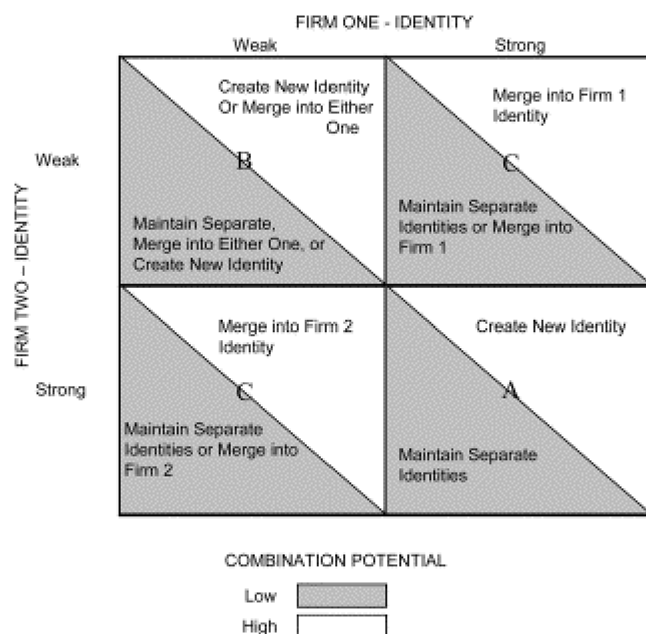

Figure 6 Merged firm organisational identity[15]

The integration strategy is thus chosen based on a set of circumstances; for example if both companies have strong identities and their combination potential is high, they are to create a new identity. However, the concept of combination potential might be seen as speculative to some extent, because realisation of synergies is rarely definite – even if they in most cases are expected.

Basu's (2006, 32–36) four strategies for **integrating product brands** are also discussed here, because in some M&As (such as in the case acquisition) corporate brands become product brands as a result of M&A. These strategies are based on two dimensions: offer (same/different) and message (same/different). Basically, offer refers to the variety of products, whether the company sells the same or different products (or a range of them) to all of its segments. Message refers to the positioning of the products, whether the company uses the same or different message for all its products. The possible combinations of these dimensions are: Global Brand (same offer, same message), One Offer (same offer, different message), One Message (different offer, same message) and Best Fit (different offer, different message). Figure 7 shows the different combinations.

[15] Source: Zaheer et al. 2003, 189.

Offer \ Message	Same	Different
Same	Global Brand	One Offer
Different	One Message	Best Fit

Figure 7 Product branding strategies[16]

Although this framework is relatively narrow, it can offer a foundation for figuring out the degree of product brand integration after M&A and help to further design the final relationships between the different product brands.

3.2.3 Corporate image management

The third sub-question of this research concentrates on management of corporate image and this chapter will therefore explain this task thoroughly. As discussed in the previous chapter the management process progresses differently depending on the chosen image integration strategy: whether the corporate images are to continue to exist separately or to be integrated with each other. Connection to M&As will be made based on Ind's (1992) strategic approach to corporate identity programmes on each of its steps.

In the past managing corporate image was not considered relevant to corporate strategy, but during the last decades it has become an issue of great importance. Today, to establish and retain a superior image is an essential part of constructing an efficient corporate strategy. (Gray & Smeltzer 1985, 77.) In fact, corporate image management can be regarded as the key to assuring and sustaining people's reliance on the company (Gray 1986, 4). It is common that different constituents hold varied images of a company deriving from a set of perceived identity signals (Markwick & Fill 1997, 398). According to Dowling (1993, 101) it is the *fundamental principle on which the management of corporate image is built* that every individual has his or her own image of a firm.

While talking about corporate image management, attention should also be paid to what has been written about corporate identity management because, as Margulies (1977, 66) proposes, image can be influenced indirectly through the management of the corporate identity. Hence, the end objectives are practically the same. As noted earlier,

[16] Source: Basu 2006, 33.

identity and image tend to be seen as counterparts in the communication process (Christensen & Askegaard 1999, 296).

It can be a complicated task to plan a thorough programme reflecting a corporate image that considerably supports the success of corporate strategy (Gray & Smeltzer 1985, 74). However, coordination of a company's internal operations in order to construct the groundwork for the looked-for image is the key to the management of corporate images and their elaboration into marketing assets. Ries and Trout (1981) have in fact made popular the notion of employing image as a market positioning tool, proposing positioning to be regarded as the fifth P of marketing[17]. (Dowling 1993, 101.) According to Ind (1992, 196), identity programmes are undertaken with the aim of managing corporate communications in such a manner that the right messages about identity are communicated, leading to the creation of an image that assists in the achievement of corporate goals.

The corporate image management necessitates a perception of image formation and of its regular measurement because adapting the corporate image has to be done based on the knowledge of the present image and the ability to change certain elements about it (Dowling 1993, 102). The dimensions of corporate image were discussed in Chapter 3.1.2 and will not be further discoursed here. The measurement of corporate image can, according to Worcester (referred to in Bernstein 1984, 205), be done solely through attitude research. It is the only way to measure image because, as already established, corporate image is the perception of the company in the *minds* of stakeholders (Bernstein 1984, 205). Hence, a company should research the public's attitudes toward itself. Barich and Kotler (1991, 94) recommend the usage of an *image tracking and management system* for the achievement of this goal. They define it as *a system of periodically collecting, analysing, and acting on information that describes how different publics view key attributes of the company's performance*. According to them, the main benefits of the system for the company are:

The possibility to

- become aware of adverse changes in image and take early action before the company is harmed
- recognise essential fields in which improvement is needed because the company's rivals are stronger in them
- recognise essential fields in which it outperforms its rivals in order to get the most out of them
- discover whether the image has become better through corrective actions taken

[17] The traditional four P's of marketing are: Product, price, place and promotion.

Attitude research enables the company therefore to improve its image in specific segments by modifying particular features in the company's actions and comments about itself (Dowling 1993, 105). The information gained through research also makes it possible for the management to decide if the corporate images can be considered as strengths or burdens to the company and whether they can benefit from the implementation of the strategy (Dowling 1993, 106).

Abratt (1989, 69–74) was the first to design a conceptual model for the corporate image management process after various authors had written about corporate identity programmes. Abratt's model includes three stages: (1) corporate personality, (2) corporate identity, and (3) corporate image. The first stage, **corporate personality**, starts with understanding corporate image: it is essential to obtain a comprehension of image before a company can begin to manage it. Managers' need an understanding of the different aspects of the company: who it is, what it believes in, and what it represents. This can be achieved through an exercise of formally articulating firstly the corporate philosophy, which expresses the company's core values, and secondly assumptions, which further form the corporate culture. The next step is strategic management, which contains formulation and implementation of the strategy. The managers first have to define the corporate mission, which clarifies the connection between corporate philosophy and strategic management. Then the general business objectives are to be set and the practical way of how they are to be met is stated. In conclusion, the phases of the first stage are: Corporate philosophy → Core values and corporate culture → Strategic management → Corporate mission → Business objectives → Strategy formulation → Strategy implementation

The second stage, **corporate identity**, begins by elaborating the communication objectives. The managers should be able to define the company's communication philosophy and, in case there are incongruities, corrective actions should be taken. Although at this point the general business objectives and strategy are often decollated into individual functional objectives and strategies, the opposite direction offers better support for corporate image management. Hence, the communication of each function's objectives and strategy should be recombined and it is essential to create an overall communication *game plan* traversing all functions. This plan involves both structures and systems and it should serve to create and manage them in a way that guarantees the achievement of all objectives related to corporate image and communication. Nominating a division responsible for corporate image, reporting to the CEO, commences the communication game plan. The division is then to evaluate all present management systems associated with corporate image and, if needed, revise them or even add more systems for image management. Additional tasks for this division are, among other things, confirming that all corporate communications are supported by the corporate philosophy, researching

the image, and producing an annual report. To summarise, stage 2 has got three activities: Organisation's communication objectives and game plan → Functional communication objectives → Development of structures and systems.

A central term in stage 3, **corporate image**, is *image interface*, which refers to the place in which the company has a connection with the stakeholders. That is thus where the stakeholders' impressions – which in turn construct the corporate image – are affected by the output of different management systems. Because different constituents encounter different outputs, there may be potentiality to find a particular series of management systems targeted at a certain stakeholder group that would produce synergies in the corporate image management process. Hence, the optimal situation in corporate image management would be the management of the systems as an entity vis-à-vis the stakeholder in question. Figure 8 shows the company's different stakeholders for clarity.

IMAGE INTERFACE	ORGANIZATIONS PUBLICS	
		Customers
		Government
		Bankers
		Influential Groups
		General Public
		The Media
		The Trade
		Internal

Figure 8 Stage 3 in corporate image management process: corporate image[18]

Dowling (1993, 106–107) has got a different standpoint on corporate image management. He has introduced four different approaches to building corporate images: pathfinders, commander, change, and vision approach. The **pathfinders** are generally founders of companies or entrepreneurs with a strong public profile that is of assistance in confirming that everyone is aware of the company's direction and what it supports. The CEO thus persuades the others (i.e. stakeholders, customers, employees etc.) of the

[18] Source: Abratt 1989, 71.

worthiness of his/her vision. Case company The Body Shop's founder, Roddick, is mentioned as a typical example of this approach. The **commander** approach is characterised by a CEO having the role of a rational analyst. He/she conducts vast researches of the market situation and the rivals before amending the company's ideal image. The **change** approach is kind of an extended version of the commander approach but the CEO is described as an architect of corporate image change. He/she takes advantage of the company's control mechanisms and resources in order to create a special unit which researches the existing images and suggests a change policy based on that. Finally, in the **vision** approach the CEO assembles a set of managers to plan a vision for the company. Feedback and comments on it are then gathered from the employees, and if needed, modifications are made to the vision. In the end, a statement of the vision is normally published and it becomes the base for the company's future actions. (Dowling 1993.)

Also Ind (1992, 48) has presented a model, although it is designed from the point of view of the corporate identity. As explained earlier, identity management influences corporate image and therefore Ind's (1992) model is relevant to the study. His *strategic approach to corporate identity programmes* comprises seven steps that are introduced in Figure 9. In the following, Ind's (1992) approach is applied in M&As.

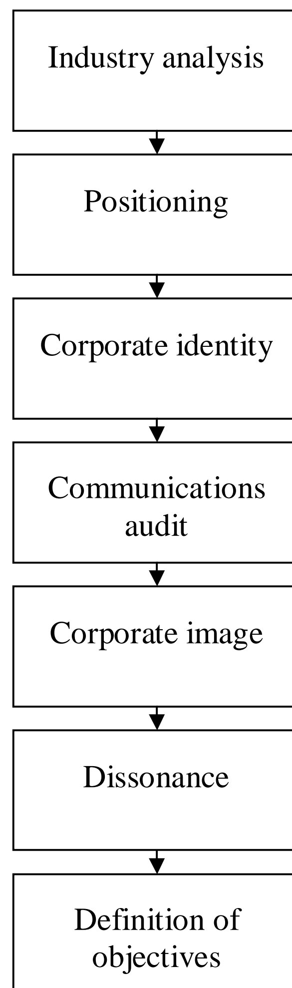

Figure 9 Strategic approach to corporate identity programmes[19]

Firstly, the joining companies have to gain a comprehension of their **industry's** (or if the acquisition is vertical or conglomerate, both industries') driving forces for competition, for instance through Porter's model of five forces[20], in order to be able to decide the best strategy. Next, the companies' **positioning** strategies have to be analysed and compared to each other. Also this can be done by using Porter's model, namely the one of three generic strategies[21]. While strategy gives a direction to a company, for it to be operational it is important that the company is managed efficiently to reinforce the

[19] Source: Ind (1992, 48).
[20] Porter's five competitive forces are: Potential entrants, substitutes, suppliers, buyers, and industry competitors.
[21] Porter's model of three generic strategies includes two dimensions: Competitive advantage (lower cost vs. differentiation) and Competitive scope (narrow vs. broad target) and the possible strategies are: (1) Cost leadership (2) Differentiation, and (3) Focus.

direction. As a consequence, it is crucial that each of the joining companies' components, that form the **corporate identity**, boost and support the competitive advantage, which the strategy has as an objective. This issue is central in relation to M&As because after an acquisition there will most likely be incongruities in the joining companies' corporate identities and therefore comprehensive plans on the desired integrated corporate identity should be designed if the companies are to be integrated to each other. Even if less integration is planned, it has to be secured that the corporate identities are not contradictory. (Ind 1992, 51–60.)

After the identity issues are clear, a **communications audit** is to be undertaken. It is done in order to find out the efficiency of identity and strategy communications and it has two steps: first all forms of both companies' internal and external communication are compared to each other and evaluated. Second, the range of the companies' audiences is researched to resolve the effects that all communications have to the corporate image. Joining companies' communications are often integrated to each other in M&As, but if this is not done, it is crucial to confirm that both companies' communications affect corporate image similarly. Finally, the **corporate image** and its strengths and weaknesses are evaluated. The primary goal is to examine whether the image is beneficial to achieving the strategy or whether it is obstructing it instead. However, when two companies are integrated to each other, the joint corporate image will not be researchable instantly, because it takes time before the joining companies are seen as one. Even if the companies are to remain separate after the acquisition, there might be relatively radical changes in their corporate images immediately after the acquisition, which then are likely to be smoothed out with time. If **dissonance** exists between corporate image and strategy achievement, the company is in need for a new direction, the attainment of which begins from the definition of new **objectives** that are to be agreed by everyone. This is a very essential phase because as the identity programme has been concluded it has to be assessed based on the original goals. The first time the identity programme is pursued after an acquisition might not yet lead to a superior merged corporate image, but the programme restarts in the end by the definition of new goals and each circle will improve the end result. (Ind 1992, 78; 85; 113.)

After introducing all these models of corporate image management, it must be remarked that the majority of these programmes are not to be seen as sources for fundamental change, but rather as an evolutionary process (Ind 1992, 20). Van Riel and Balmer (1997, 348–349) summarise that although many authors have presented ideas of an efficient corporate image or identity programme, they differ only little from each other. Typically they offer checklists and plans of action, aiming at helping with the decision making, but the processes tend to be based on the same four stages: problem recognition, development of strategies, execution of action plan, and implementation. In

M&As, the corporate image management process is much more complex than in case of a sole company, because it concentrates on two corporate images instead of one and often on integrating them to each other. Another issue of importance in management of corporate image is crisis management, the role of which is central especially when acquiring a company with a different corporate image, because such a situation might cause a lot of media attention. The following chapter will look at this matter.

3.2.4 Crisis management

Defending corporate image and reputation is of major importance in image management because they are in danger to be damaged – more or less seriously – all the time (Davies 2003, 99). In the 1980s, as many as thousands of companies worldwide were hurt by a loss of image for reasons like environmental disasters, slipping from ethical standards, market deregulation, and poor customer service (Dowling 1993, 101). As it is not possible to envision every potential crisis that could encounter a company, the feasible thing to do is to design a general plan about handling crises (Chajet 1991, 98). Especially in M&As, before concluding the deal, diverse potential crisis should be assessed and a proper crisis management plan should be designed.

Fombrun (1996, 206) has listed issues that a company should regularly draw attention to in order to defend its reputation[22]. The company should first of all discuss things in which failures could occur and estimate its ability to anticipate dishonest or unethical behaviour, scandals, and other kinds of crisis that could possibly menace its reputation. It should also be aware of the degree to which it is prepared to respond to unexpected incidents and recognise the different forms of behavioural controls and monitoring systems established in avoidance of crises. Finally, the company should be familiar with the existing adjustment systems that protect the integrity of its actions.

Actually, protecting a corporate image and reputation begins by *thinking the unthinkable* and being prepared for that possibility. A crisis is referred to in cases where the company's reputation is endangered or hurt as a result of unfavourable media statements, causing loss of profit and sales in the short run and harm to reputation in the long run. (Davies 2003, 99.) A requirement for crisis management is to recognise the significance of image, both in good and bad times (Chajet 1991, 98).

However, regardless of how skilfully a company defends its reputation, a crisis might still occur. In that case, Bernstein (1984, 230–232) suggests some guidelines for the company to follow. To begin with, the company should take initiative, keep in con-

[22] Corporate image and reputation protection have congruent objectives, and therefore also reputation is discussed here.

tact with the media, speak truthfully and treat media with respect. Silence is easily regarded as guilt and by co-operating with the media the public will see the incident in context. The company should also not speculate nor ask for a retraction and it should make sure that the internal communications are good and that the communications are kept simple. It must remember that anything said can be quoted and if/when misquotes happen, retraction will only put more attention to the matter. Lastly, the company should analyse the headline and the questions, it should think in terms of people and monitor and follow up all media coverage. These actions help to keep messages concentrated, factual and personalised and to improve media relations.

To conclude, to communicate effectively is not enough to gain a positive reputation; steady performance of several years is also required. But a co-ordinated communication programme can indeed strengthen and support a favourable reputation. (Gray & Balmer 1998, 696.) Bernstein (1984, 244) summarises fittingly the relationship between image, management and communications:

If the image is false and our performance is good, it's our fault for being bad communicators. If the image is true and reflects our bad performance, it's our fault for being bad managers. Unless we know our image we can neither communicate nor manage [it].

3.3 Synthesis

The fundamental assumption behind this study is the importance of corporate image related matters in M&As. The relevance of this study and its research questions relies on the importance of this relationship. Therefore, another research is presented here confirming the significance of corporate identity and corporate communications in M&As. Balmer and Dinnie (1999) have established a *merger mix* (see Figure 10), which refers to the key drivers for successful M&As and includes four factors: stakeholders, corporate identity, corporate communications, and finance.

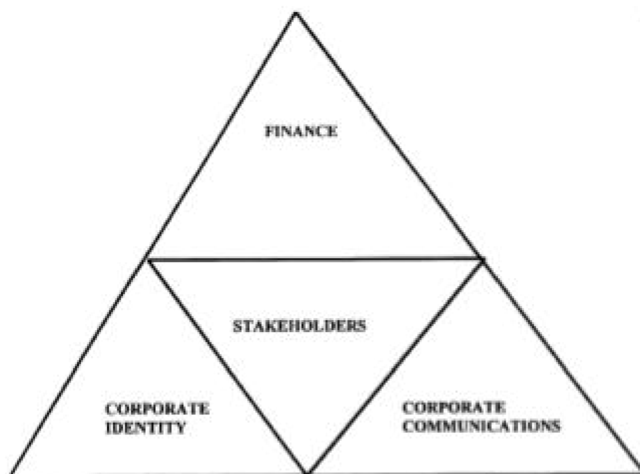

Figure 10 The merger mix[23]

First of all, it is a prerequisite to a successful M&A that the demands of different **stakeholder groups** of both companies are addressed. For M&As to be successful the approval of various stakeholders is needed and they must thus realise the advantages of the M&A. (Balmer & Dinnie 1999, 189–190.) The following factor in the merger mix is **corporate identity** and in relation to that, the authors suggest that the joining companies should consider different questions in order to begin the operationalisation of this step. These questions concern evaluating the strengths and weaknesses of both companies' businesses and markets, dominant cultural forces within the organisations, leadership styles, histories, and company structures. (Balmer & Dinnie 1999, 190.) The **corporate communications** is another important factor of the merger mix and Balmer and Dinnie (1999) present various benefits of effective corporate communications. The issues that can be identified through it include stakeholders and channels (both controlled and uncontrollable) that are essential to M&A success, and weaknesses in communication strategy that could potentially result in gaps that might further be filled with rumours and assumptions. (Balmer & Dinnie 1999, 190.) Finally, Balmer and Dinnie (1999, 191) emphasise the importance of **financial** questions' contribution to M&A success, but they acknowledge the plentifulness of articles written on it and do not elaborate it further. Balmer and Dinnie (1999, 191) wish to highlight that *while financial concerns are important they should not eclipse the important corporate identity, corporate communications and stakeholder issues which often determine the ultimate success or failure of a merger*. The merger mix will be further referred to in Chapter 6.3.3 where these issues are discussed regarding the case acquisition.

There is a vast literature basis for this study regarding M&A motives and challenges and corporate image management, and this study's main purpose is to combine these

[23] Source: Balmer & Dinnie 1999, 189.

two theoretical backgrounds through the three sub-questions of the research. Combination of the theories has mostly been done in Chapters 2 and 3. Finally, these issues are discussed in association with the case acquisition in Chapter 6.

4 RESEARCH DESIGN

4.1 Research approach

Research strategy refers to the aggregate of methodical decisions made during the research work. The choice of it is based on the purpose of study or on the chosen research problems while the leading principle is the **consistency of choices** made throughout the study. (Hirsjärvi, Remes & Sajavaara 2000, 120). The method used in this study is desk research (also called desk study or secondary research), which signifies that the whole study is based on secondary data, that is, literature and other already existing written material. Jackson (1994, 21–22) describes desk study as a process accessing published secondary data. No primary data has thus been used in this study; the following chapter presents and evaluates all the utilised sources of this study. In addition of being an indirect data collection method – as no direct interaction with the information sources is achieved – desk research never is entirely structured. The research process is dependable on what information is available and found, and the original plans will therefore require adjustment according to these terms. The desk research approach has significant potential to add a new dimension to current research, which is one of the main objectives in this study: to bring the corporate image management dimension to research on M&As.

Yin (1988, 16) has introduced five major research strategies: experiments, surveys, archival analysis, histories, and case studies. Each of these strategies has its limitations and benefits and it is often not obvious which one of them would best fit the research. However, in certain situations, there is a particular strategy with apparent benefits, and, according to Yin (1988, 20) for case study it is when *a how or why question is being asked about a contemporary set of events, over which the investigator has little or no control*. Case study has been used as an additional research method in this study; it is an appropriate strategy to be used in this thesis because the purpose of this study is to gain better comprehension about M&As with corporate image differences and about *why* they happen and *how* the image differences might affect the acquisition. This is partly explored through the case acquisition: L'Oréal's acquisition of The Body Shop. According to Gummesson (1991, 85), it is not meaningful to generalise in all contexts, but sometimes the opposite, **particularisation**, is a more useful method to be used. It is based on the idea that *social phenomena are part of a specific situation and are far too liable to change to allow meaningful generalisation*. Further, Schramm (1971, referred to in Yin 1988, 23) has defined that case study *tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result,*

which is largely what the analysis of the case acquisition aimed at: to understand why and how it was executed and what kind of results it had, in order to add to the information gained through the desk research.

The purpose of a study is generally divided into three categories – exploratory, explanatory and descriptive – and a study can concentrate on one purpose or more (Hirsjärvi et al. 2000, 127). Exploratory studies look at what happens, aim at finding new viewpoints and new phenomena, clarify rather unknown phenomena, and develop hypotheses. Explanatory (also called causal) studies search for an explanation to a situation or a problem, generally in terms of causal relationships as well as identify probable causal connections. Descriptive studies present detailed descriptions about persons, events or situations, and document central and interesting features in phenomena. In this thesis, the descriptive approach has been adopted, as the primary aim of the desk study is to document central features of an acquisition with corporate image differences and that of the case study to describe L'Oréal's acquisition of The Body Shop in as much detail as possible.

According to Yin (1988, 7), in some situations, such as when histories are done about contemporary events, two research strategies might be overlapping with each other. In the same way, desk research and case study are partly overlapping in this thesis because, although the case study is conducted based on secondary data, it still is in line with case study descriptions as well. Further according to Yin (1988, 2), the case study method *allows investigators to retain holistic and meaningful characteristics of real-life events – such as individual life cycles, [and]* ***organisational and managerial processes***, which matches perfectly this study's objective to identify characteristic issues to M&As with corporate image differences.

4.2 Collection and analysis of research data

As mentioned, this study uses written sources and the material has mostly been qualitative. However, the study also contains some quantitative data in form of statistics on M&As and financial information on the case companies and the acquisition. The use of secondary data creates, however, some problems regarding reliability: data might be insufficient or imprecise, and its applicability and usability might be distorted because the data has been collected for another objective (Emory 1985, 135–136; Kent 1993, 98).

Desk research process consists of four stages: data location, recording, evaluation, and integration (Jackson 1994, 23). At first, secondary sources are used for searching of data: in this study, it was searched in library and electronic databases containing journals and financial literature (various magazines and textbooks) by using diverse key

words. Further, internet was searched for numerous purposes, inter alia, statistics on M&As and corporate image, news of the acquisition and case company information. In the next step, data was recorded. Books and other publications on paper were copied, internet sites were saved and/or printed and for example electronic journal articles were downloaded. Additionally, notes were taken at all times. After this step, the reliability of data was evaluated to ensure trustworthiness. Lastly, all relevant material was integrated into a research report. However, this process has not been this straightforward; in reality the process started over various times when new information was needed and searched. The analysis of data has been relatively informal and data has been searched, collected, processed and integrated simultaneously.

As already noted, this research also includes a case study. Selection of the case company was based on various criteria. One basis for selection is to choose a case from which it is possible to learn the most (Stake 1994, 243), which in this thesis signified choosing a case company with extensive documentation. Because L'Oréal's acquisition of The Body Shop raised a lot of attention, there was plenty of secondary data available, in form of articles in newspapers, various magazines, internet, and even some journals. Patton (1990, 180) has also mentioned the *criterion of convenience*, which signifies selecting cases with the easiest access, in order to enable evaluation when resources are limited. In thesis work the resources tend to be limited, both in terms of time and people, and thus it was essential to select a casework with as much documentation as possible. This further made it possible to concentrate on one acquisition only. Other criteria to the selection included the recentness of the acquisition; it had been executed less than a year prior to the beginning of the thesis work. Additionally, the acquisition's size was large enough, to ensure its relevance in the international context and, again, the sufficiency of information available. It can also be added, that while the research concentrates on M&As with corporate image differences, an acquisition with as much image differences as possible was desired for the casework. It is evident that there were a lot of M&As with corporate image differences to choose from, but the differences in the chosen case were considerably great.

The intention in the casework was to use multiple methods to collect data – a typical feature of case studies – in order to enhance the validity and the reliability of the study (Hirsjärvi et al. 2000, 123; Yin 1988, 89). Documentation was selected as the principal method of data collection, and the original purpose was to use interviews with both companies to fill out potential gaps in the documentation. I first contacted L'Oréal's and The Body Shop's subsidiaries in Finland, but as expected, they did not possess much information about the acquisition. Contact was then initiated numerous times, in France and the U.K., with several people in the press offices and corporate communications, via e-mail and telephone. The results were, however, non-existent: altogether

two replies in form of an e-mail were received during a month of continuous attempts appealing to scarcity of resources and confidentiality policies as reasons of not giving any interviews on the subject. Hence, after countless efforts, the company interviews were abandoned as a method of data collection. Then, the possibility to interview experts was also investigated, but it became evident that most of the knowledge focuses on financial and legal issues in M&As rather than in issues concerning corporate images. Finally, it was decided that interviews will not be conducted at all and that documentation will be used as the sole method of data collection. This issue must be taken into consideration when estimating the reliability of this study.

With documentation as the only data collection method, maximisation of the variety of used sources was endeavoured. Information was gathered from the companies' websites and annual reports, other types of reports, a variety of magazines and newspapers, press releases, news, journals and books. The theoretical background of this thesis is not considered to be unreliable, mostly because it is based on principal theories in both M&As and corporate image. Further, reliability is enhanced by using typical sources for data collection: central scientific journals, economic textbooks and some statistics. Also, when possible, original information sources have been used. The most important matter influencing the desk study's reliability is typical to desk research: that data was collected for other purposes in the first place.

The case study might suffer from less reliability, because it uses more case companies' own statements and basic press as information sources. Therefore, additional attention is here put onto where each types of sources have been used, so that it is possible for the reader to establish his/her own idea of the reliability of this study. The case companies' presentations (Chapters 5.1.1 and 5.1.3) use principally sources provided by the companies, such as company websites, annual and other reports, and other dependable sources. However, this is not believed to form a great problem, as these chapters only aim at presenting the companies and the best information of this is held in the company. Although these reports will probably prefer describing the company with as positive attributes as possible, it can be assumed that financial information and other statistics in them are accurate. Hence, these sources have been viewed especially critically, always remembering the dependability of company provided sources.

Also the descriptions of case companies' corporate images (Chapters 5.1.2 and 5.1.4) rely heavily on company provided data but presentation of values and strategies could not really be achieved from elsewhere. Also academic sources have been used in these chapters for analysis of positioning and image.

The sources used in Chapter 5.2 and the whole Chapter 6 have been collected into Table 2 and they have been classified into four different categories:

- Data provided by the company including company websites, annual (and other similar) reports and press releases. The reliability of this data is not optimal.
- Data provided by news and newspapers including quotidian newspapers (such as The Independent), news services in the internet (such as www.bbc.co.uk) and some monthly publications (such as Soap, Perfumery and Cosmetics). This data is often based on press releases or information provided by the company, but is not considered as unreliable as the previous category.
- Data provided by economic news including financial and economic publications, such as Financial Times, Marketing & Advertising and Wall Street Journal. The main difference to the last category is higher degree of analysis and criticism in these publications.
- Data provided by journals and textbooks including academic journals (such as Journal of Marketing Management and Strategic Management Journal), but also a few economic textbooks. This data is considered reliable.

For Table 2, the used sources have been quantified according to the presented categories in order to enable comparisons between different chapters and subjects. Therefore, it has to be kept in mind that the use of a certain source might refer to only one figure in the source or to several pages of data. Further, although one chapter would refer to the same source many times, the source has been counted only once. Therefore, this table can only be seen as giving some kind of idea of the use of sources and not as a proper analysis between the diverse sources' use.

Table 2 Use of different types of sources in the case study

	Company	**News**	**Economic news**	**Journal**
5.2. CASE ACQUISITION				
5.2.1. Background	2	6	1	-
5.2.2. Deal and integration	3	2	4	-
5.2.3. Public's concern	1	3	4	1
5.2.4. Financial outcomes	9	3	-	-
6.1. MOTIVES	6	2	7	9
6.2. CHALLENGES	1	3	7	15
6.3. IMAGE MANAGEMENT	4	1	3	7

As Table 2 demonstrates, the importance of company provided data is emphasised also in Chapter 5.2. However, this is not considered to extremely affect the reliability because also this chapter concentrates on describing the case acquisition; it can be seen that for example Chapter 5.2.4 presenting the financial outcomes of the acquisition has mostly used company's annual reports and press releases as sources, which seems natural.

In Chapter 6, the use of journals and – to some extent – also economic news is emphasised, which is typical because the chapter *analyses* the case acquisition. Most references to data provided by the case companies have only been used in order to add some figures or quotations to the text. Chapter 6.1 on acquisition motives forms an exception because it is relevant that the motives are commented also by the companies before analysis.

Because of the reference instructions for thesis work, the author feels that some references might resemble different source to the reader than they actually represent and might therefore affect the reader's judgement on source reliability. This kind of sources will be briefly introduced here. Firstly, many article titles begin with the names of the case companies, which might resemble to the reader that they refer to for example company websites. Such titles include:

- Body Shop chief...
- Body Shop in takeover…
- Body Shop agrees…
- Body Shop: aiming...
- Body Shop L'Oréal deal…
- L'Oréal discloses acquisition…
- L'Oreal SA: EU Clears…

However, the three first ones are articles provided by BBC, the fourth one is an article in *Market Watch: Global Round-up*, the fifth one in magazine *Soap, Perfumery & Cosmetics*, the sixth one in magazine *Accountancy*, and the last one in *Wall Street Journal*. Further articles by BBC that might remind the reader of more unreliable sources include:

- Garnier, adecco fined...
- Roddick: anti-wrinkle creams…

Lastly, two company provided sources exist that have been used relatively often in the case study and they are therefore presented in more detail:

- "L'Oréal annonce une offre…" refers to a press release from 17th March 2006 given by both case companies together and explaining acquisitions' terms and both companies' opinions about it.

- "Q4 2006 L'Oreal" refers to a 30-page document containing a whole directly interpreted presentation (on 15th February 2007) by L'Oréal to its shareholders and press. The document is almost totally composed of presentations by L'Oréal's managers and their answers to audience's questions.

4.3 Trustworthiness of the study

Trustworthiness of qualitative studies is often examined in terms of reliability and validity, although there is a range of approaches for this purpose. The principal matter is that the trustworthiness is being evaluated. (Tynjälä 1991, 388–389.) This study uses criteria presented by Lincoln and Guba (1999, 407–430) for the examination and the four perspectives from which a study should be evaluated according to them: credibility, transferability, dependability, and confirmability.

Credibility, that is equivalent with the traditional concept of internal validity, refers to the degree to which the researcher's interpretation matches the reality and how the match can be verified (Lincoln & Guba 1999, 410–420; Tynjälä 1991, 390). Triangulation is one method of increasing the credibility of a study and there are four types of it: the use of diverse sources, investigators, theories, and methods (Janesick 1994, 215). In this study, data triangulation was achieved by using different sources of information: newspapers, magazines, internet, journals, etc. However, documentation was the only method of data collection and therefore methodological triangulation in this study was limited. Further, triangulation in terms of investigators was not utilised in this study but theory triangulation was given a strong emphasis as data was interpreted using multiple theoretical perspectives. In addition to triangulation, no other methods were used in this study to improve credibility.

Transferability, that is equivalent with the traditional concepts of external validity or generalisation, refers to the degree to which the results can be adapted to a more extensive population. In qualitative research, the transferability of results from one context to another depends mostly upon the similarity of the researched environment and the other environment. The researcher cannot be the sole person to draw conclusions about the transferability, and therefore the informants and the environment should be described precisely enough to enable the readers of the study to evaluate the transferability. (Lincoln & Guba 1999, 420; Tynjälä 1991, 390.) In this study, the objective was to describe both case companies and the whole acquisition process as precisely as possible in Chapter 5, which should enhance the transferability of the study. However, when conducting a case study, the research cannot really be statistically valid (Lukka 1985, 183); every acquisition is unique and therefore expectations of the transferability

of the research results should be avoided. In qualitative research, data is not analysed with the aim to draw generalisations. However, the underlying idea is that the general repeats itself in the particular. Thus, when researching a case carefully enough, the central and recurring factors of a phenomenon can be perceived on a general level. (Hirsjärvi et al. 2000, 169.)

Dependability, that is equivalent with the traditional concept of reliability, refers to the degree to which the results are affected by the research situation and circumstances. Dependability can be reduced by thoroughly describing the data collection process. (Lincoln & Guba 1999, 421; Tynjälä 1991, 390.) As already mentioned, in this study data was collected through documentation only, and therefore the researcher could not affect it. However, it is possible that some misinterpretations have occurred when using a number of English and some French sources due to the languages. Also the use of secondary sources can affect dependability, because that data might have been affected by the original researcher's opinions or it could contain errors. Furthermore, the definition of concepts might have been different. (Emory 1985, 152.) The matter of definitions has, however, been acknowledged especially in Chapter 3, because corporate image, identity, and personality among others are often used imprecisely. Errors concerning definitions have thus been consciously avoided. Most of the data used in this research is up to date and the case acquisition is still recent, although at some cases in the thesis newer figures would have preferable but were not found. Additionally, writing this thesis in English might have caused some dependability, as it is not the native language of the author and therefore some meanings might have been changed during the writing process.

Confirmability, that is equivalent with the traditional concept of objectivity, refers to the neutrality of a study and to the degree to which the collected data supports the study's findings (Lincoln & Guba 1999, 422; Tynjälä 1991, 392). All qualitative studies are, however, to some extent affected by the researcher (Vanhala 1985, 85). In this study it is possible that some subjectivity can be seen in analysing the case acquisition and in the conclusions, because of the author's inexperience in research work. Biases have been sought to be avoided in the research work and for example research data has not been as much selected as that all information available (and that has been found) has been collected. Objectivity has been strived for at all times in this thesis and describing the whole research process as carefully as possible has potentially enhanced confirmability.

5 CASE DESCRIPTION

5.1 Presentation of the companies

5.1.1 Presentation of The Body Shop

The Body Shop International plc (The Body Shop) is an international, U.K. based manufacturer and retailer of beauty and cosmetics products (The Body Shop – Our Company). It was founded by Dame Anita Roddick (referred to as Roddick later in the text) in 1976 with the first shop opened in Brighton on 26th March, and by the end of 2006, The Body Shop had developed into a chain of 2265 stores in 56 countries (The Body Shop – Our History). 886 of the stores were owned by The Body Shop and 1379 of them were franchisees. Also at the end of 2006, The Body Shop employed directly 10 000 people and a further 21 000 people were employed by franchisees or were working as The Body Shop At Home Consultants. (The Body Shop Values Report 2007, 13–14.) All the 1200 of The Body Shop's products are *animal cruelty free* and approximately half of them contain community trade ingredients (The Body Shop – Our Company).

Already two years after the foundation of the company (in 1978) the first franchise abroad was opened in Brussels and by 1982 an average of two shops were opened per month. In 1985, The Body Shop went public and during the same year the company got involved in public activism by starting a partnership with Greenpeace, the first one Greenpeace had ever had with a commercial company. (The Body Shop – Our History; Roddick 2002.) In 1986, The Body Shop established its own Environmental Projects Department and the company's first community trade product was manufactured in Southern India (The Body Shop – Our History). Today, Community Trade works with 31 suppliers in 24 countries, and it provides over 15,000 people with a proper income (The Body Shop – Our Company).

In 1989 The Body Shop was launched in the U.S. and a year later the company had expanded to a total of 39 countries and The Body Shop Foundation[24] was created. The direct-selling division, The Body Shop At Home[25], was introduced in the U.K., Canada, Australia and the U.S. during 1994–2001. The Body Shop signed up to the Humane

[24] The Body Shop Foundation is a charity funding work for human and civil rights and environmental and animal protection.
[25] The Body Shop At Home refers to a home-party format in which independent consultants bring Body Shop products directly to customers' homes by appointment.

Cosmetics Standard in 1997, being the first international cosmetics company to do that. (The Body Shop – Our History.)

One of the most successful of The Body Shop's campaigns was the Against Animal Testing campaign, which resulted in the largest petition ever to European Commission (in 1996) and a ban on animal testing on cosmetic products and ingredients in the U.K. (in 1998). In 1999, four new business units were established in the U.K., Europe, the Americas, and Asia in order to shift the operational and management structure out to the regions. (The Body Shop – Our History.)

Finally, in 2006 The Body Shop became part of the L'Oréal Group and on 12th July the company was de-listed from the London Stock Exchange. It was stated that The Body Shop will maintain its unique identity and values, and continue operating independently with the same management team, which would be reporting to the CEO of L'Oréal. (The Body Shop – Our History.)

The consolidated revenue of The Body Shop during the fiscal year ending 25th February 2006 (less than a month before the acquisition by L'Oréal) amounted £486 million (€715m) representing a growth of 15,9 %. The gross profit was £319 million (€470m) signifying a growth of 16,8 % and the operating profit increased by 5,9 % to £42 million (€60m). (The Body Shop International plc Annual report 2006, 37.)

5.1.2 The Body Shop's strategy and corporate image

The Body Shop has five core values that are to regulate everything the company does (The Body Shop – Our Passion): Support Community Trade, Defend Human Rights, Against Animal Testing, Activate Self-Esteem, and Protect Our Planet (The Body Shop – Our Company). Additionally, The Body Shop states to endeavour to use natural, high quality ingredients that are ethically and responsibly produced and purchased, as well as to make innovative but affordable products that are marketed in an honest way (The Body Shop – Our Passion). These values form the basis for the company's strategy and are the corner stones of its positioning.

The Body Shop's positioning is so original (or was in the 1970s) that it has often been referred to in strategy textbooks as an example of creating a new business concept. The role of Roddick has been emphasised a lot; she was the one personifying the corporate brand and promoting the company's values and products (e.g. Dowling 2004, 27). The desired image of the company has been the driving force to its strategy since the beginning (Balmer & Greyser 2003, 26) and Davies (2003, 98) suggests that through the unique positioning, The Body Shop in fact repositioned its competition. According to Dowling (2004, 27), The Body Shop typifies a corporate reputation that has a major

strategic importance to a company, and the company's differentiation in the cosmetics market is based on this superior reputation.

In the key aspects of The Body Shop's corporate strategy, the following issues have been mentioned in the annual report. On **brand position and image**, the objective has for a long time been a *masstige*[26] positioning of the brand, in which further progress has been made during the last years. In the domain of product development, the strategy is to incite multiple purchases and higher transaction values through innovation within all product ranges and categories. Another key element of the strategy has been the development of a **multi-channel organisation**, referring to the three distribution channels through which The Body Shop serves its customers: stores, internet, and The Body Shop At Home. Additionally, expansion to new markets plays a key role in the company's **growth strategy**, by means of working with the franchise partners. The Body Shop aims at the maximisation of the brand's potentiality in all markets. (The Body Shop International plc Annual report 2006, 3–6.) In the 1990s, The Body Shop explored retailing strategy to a larger extent but when franchising proved to be more profitable for the company, it returned to the original strategy (Wallace 1996). In the end of 2006, 39 % of The Body Shop stores were owned by the company and the rest were franchises (The Body Shop Values Report 2007, 13–14).

5.1.3 Presentation of L'Oréal

L'Oréal is the leading cosmetics company in the world (Montague-Jones, 2007) with consolidated sales of €15,8 million in 2006 and an operating profit of €2,5 million. The increase in sales from the preceding year was 8,7 % while that of the operating profit was 12,1 %, and the company has enjoyed the positive trend for a long time (L'Oréal 2006_annual report, 12). For instance, during the first half of 1990s its stock soared 900% and the company has now experienced two decades of ceaseless double-digit profit growth (Edmondson, Neuborne, Kazmin, Thornton & Nickel 1996; Benady 2006). L'Oréal has more than 500 brands and 19 of them are considered truly global: L'Oréal Paris, Garnier, Maybelline NY, SoftSheen Carson, Lancôme, Biotherm, Helena Rubinstein, Giorgio Armani, Ralph Lauren, Cacharel, Kiehl's, Shu Uemura, L'Oréal Professionnel, Kérastase, Redken, Matrix, Vichy, La Roche-Posay, and The Body Shop (Excite careers – L'Oréal; L'Oréal – Group profile). The brands are classified into four product categories: Consumer products, luxury products, professional products, and ac-

[26] The term *masstige* is a combination of mass-market and prestige and it refers to products that are premium but attainable. These products are thus considered luxury but their price range is between mid-market and premium.

tive cosmetics. The Body Shop has been kept its own entity and it is not considered to belong to any of these categories. (L'Oréal – Our brands.)

L'Oréal has a century of experience in cosmetics. In 1907, a French chemist, Eugène Schueller, invented the first synthetic hair colorant in the world (Welcome to the L'Oréal…) which he patented in 1908, and in 1909 he founded a company called *Société Française de Teintures Inoffensives pour Cheveux*[27] (Q4 2006 L'Oreal…). At the time, he was selling self-manufactured products to Parisian hairdressers but already in 1912, he was exporting his hair colour products abroad to the Netherlands, Austria and Italy (Anniversaries; The New York Times Job Market). The company expanded into soaps and shampoos very quickly and was advertising on radio already in the 1920s (Excite careers – L'Oréal). In 1939 the company adopted the name L'Oréal and Schueller worked as the company's director until his death in 1957, after which François Dalle, the right-hand man of Schueller, took the lead of L'Oréal (Resultat : qui n'a jamais...). Thanks to Dalle, L'Oréal entered the American market and went public in 1963 (Excite careers – L'Oréal).

At this point, L'Oréal started to expand its business through acquisitions. Among others, Lancôme was acquired in 1964, Garnier in 1965, Helena Rubinstein in 1989, Maybelline in 1995, Kiehl's in 2000, Matrix and Shu Uemura in 2003, and finally The Body Shop in 2006 (L'Oréal Production; Garnier; Excite careers – L'Oréal; L'Oréal annonce une offre...). François Dalle worked as the CEO of L'Oréal until 1984 and was followed by Lindsay Owen-Jones after whom Jean-Paul Agon (referred to as Agon later in text) became the CEO in 2006 (Resultat: qui n'a jamais…; James 2004, 74). Today, Schueller's daughter Liliane Bettencourt is the major shareholder of L'Oréal with 29 % of shares and Nestlé is the second biggest with 27,9 %. The rest of the shares is divided between public (37,8 %) and treasury stock (5,3 %) (L'Oréal 2006_annual report, 8).

L'Oréal has 60 850 employees in 58 countries and its products are distributed to over 130 countries (L'Oréal – Human Resources; The New York Times Job Market). The company has focused on research and innovation since the very beginning and it uses annually more than 3 % of its turnover in R&D, for example, in 2006 this amount was €533 million (Welcome to the L'Oréal…). L'Oréal has worldwide 16 research centres, it develops 4000 formulas per year and it filed 569 patents in 2006 (L'Oréal – Research & Development). The company's products are available in all distribution channels, which include mass market, personal care stores, hairdressing salons, pharmacies and para-pharmacies, department stores, perfumeries, travel retail, mail order, and e-commerce (L'Oréal e-Strat 2008).

[27] Directly translated as "Safe Hair Dye Company of France".

5.1.4 L'Oréal's strategy and corporate image

L'Oréal supports the following core values according to its website: Striving for excellence, A passion for adventure, Enrichment through diversity, Valuing individual talent, and Leading innovation in beauty (L'Oréal – Values). The company has thus perfection as its objective, and scientific research and innovation have in fact been fundamental to L'Oréal's strategy since the establishing of the company (L'Oréal 2006_annual report, 34). L'Oréal also states to be seeking to have personnel from different backgrounds and to encourage passion along with personal and professional growth.

As noted earlier, L'Oréal has been active in acquiring over many decades already. Acquisition strategy has especially been pursued under the management of Owen-Jones; for instance, in 1999 he had bought five companies in six years (Edmondson et al. 1999). Since 2006, the same strategy has been followed by Agon, who right after becoming the company's CEO stated that *acquisitions could form part of his management strategy* (Buckley & Jones 2006, 19).

As a result of these acquisitions, L'Oréal has over time established a diversified portfolio of international brands, which often are not even recognised as being part of the company. This strategy has been referred to as *house of brands* (see e.g. Varadarajan, DeFanti & Busch 2006, 203) and it aims at attracting various target segments at the same time (Dowling 2004, 27). L'Oréal actually has different strategies for each of its product categories and it states that *each brand has its own history and expertise, which it develops through a specific strategy* (L'Oréal 2006_annual report, 70).

Although L'Oréal does not comment on its strategy very much in order to maintain confidentiality, Agon has introduced the *five elements of the L'Oréal strategy* in Wharton Marketing Conference in 2005 (Why L'Oreal's Jean-Paul…). They included:

- Acquiring and sustaining a unique beauty expertise
- Believing in the science of beauty, recognising that beauty is *science in a jar*
- Maintaining a strategic portfolio of brands
- Adopting a *global or nothing* strategy for all brands
- Hiring talented, diverse, and passionate people to work in the company

The company's science-intensiveness and the significance of expertise and talent have already been discussed in this chapter, as has the diversity of the brand portfolio. According to Agon, the brands are organised by distribution channels and each brand is completely exclusive to one distribution channel. The brands are further positioned inside the channels following *a very clear strategy*. Additionally, the globality strategy is pursued without any exceptions: all the brand strategies and product launches are global and only brands that already are or can become global, are acquired by L'Oréal.

In conclusion, the corporate image differences between The Body Shop and L'Oréal are very extreme. The Body Shop appreciates soft values and aspires to do good while L'Oréal emphasises the scientific side of cosmetics and seeks to be efficient. There are little similarities in these companies' strategies, values, corporate images, positionings, or marketing; it seems that the only connection between them prior to the acquisition was being successful in the same industry.

5.2 The acquisition

5.2.1 Background

As noted in the company presentation, L'Oréal has a history of acquiring other companies successfully for several decades. It is thus not surprising that it continues to explore the same strategy. L'Oréal itself describes the acquisitions of The Body Shop and Laboratoires Sanoflore as company highlights of 2006 in its annual report (L'Oréal 2006_annual report, 36). It is noteworthy that both of these brands have been positioned as natural and organic: Sanoflore has in fact been given the *bio (organic) label* and it has specialised in producing organic, Ecocert-certified cosmetics and aromatherapy (L'Oréal 2006_annual report, 79). Further, in 2006 L'Oréal acquired also a company called SkinEthic, which complements L'Oréal's reconstructed skin business and makes it the world leader in substitutes to animal testing in cosmetics' safety evaluations (L'Oréal 2006 sustainable development report, 2).

For The Body Shop, the acquisition was not a new idea either; Roddick has in fact been gradually withdrawing from her company. She resigned from the position of chief executive in 1998 and stated in 2000 that her objective was to give up her chairman's function to be able to concentrate on political campaigning (Body Shop chief…). In the beginning of 2001, the press reported an offer of £175 million (€255m) of The Body Shop made by a ten times smaller rival Lush[28]. However, Roddick regarded the bid as undervalued (Milmo 2001) and she was also told to have thought that Lush's founder, Mr Constantine was not ethical enough (Jamieson 2006). At the same time, Constantine stated officially that the bid was only speculation. However, Roddick said she did not exclude the possibility for having a deal with a competitor in the future, but it would have to be with a company promoting a similar political agenda. (Milmo 2001.)

[28] Lush is a U.K. based manufacturer of a full line of hand-made fragrance products founded in 1995.

In June 2001 The Body Shop had talks about selling the company to the Mexican Grupo Omnilife[29] for £300–350 million (€440–515m). Although the companies were already said to have reached a preliminary agreement of the acquisition, the deal never came to happen; according to some sources the reason was Grupo Omnilife's inability to finance the acquisition. (e.g. Kapner 2001; Cowell 2001; Body Shop in takeover…; Body Shop chief…) According to another source (Stecklow 2001), Omnilife said to have obtained the financing but that it abandoned the deal after executing due diligence and becoming conscious of the lack of the acquisition's strategic sense. The Body Shop was approached also in September 2001, this time by unnamed potential buyers, but The Body Shop's board terminated the discussions after a couple of months as it became clear that they were not likely to result in a high-value enough bid of the company (Body Shop chief…).

5.2.2 The deal and integration

Speculations about the acquisition started on 22nd February 2006 which led to an increase of more than 10 % of The Body Shop's share price and thus, in accordance with the stock exchange rules, L'Oréal had to give a statement. On 24th February L'Oréal announced that a wide range of strategic alternatives potentially adding value to shareholders is constantly assessed by its management and that this includes a possible offer for The Body Shop, which, if made, would likely be in cash only. (Buckley & Jones 2006.) At this time L'Oréal emphasised that no decision had been made and The Body Shop affirmed that it had not been approached by L'Oréal (Harma 2006).

On 17th March 2006 it became official that The Body Shop had agreed to an offer of £652 million (€958m) made by L'Oréal. This meant a price of 300 pence a share, which was a considerable rise compared to the closing price of 268 pence. The last closing price of The Body Shop before the speculation (on 21st February) had been 223,5 pence, thus the offer represented a 34,2 % premium to it. (Body Shop agrees…)

The acquisition still needed the authorisation by European Union, which it got without conditions on 1st June 2006 because the regulators did not consider that the deal would lead to increases in makeup or toiletry prices in Europe or to any harm to consumer choice (Body Shop L'Oréal deal…). According to the European Commission, overlaps between the two companies are restricted and the companies are expected to keep on facing competitors with important market shares and therefore no antitrust problems were to be seen after investigating the case (L'Oreal SA: EU Clears…).

[29] Omnilife is a fast-growing company that focuses on direct sales of nutritional supplements and was founded in 1991.

At the time of concluding the deal, The Body Shop was to remain an independent unit with its distribution network selling only the products of its own brand. In the meantime, the other brands of L'Oréal were to continue to be distributed in their usual networks. The Body Shop's management team was to maintain its position, reporting directly to the CEO of L'Oréal (Agon). Also, all the relationships that The Body Shop had with its employees, franchises, consultants, and suppliers were to be preserved. (L'Oréal annonce une offre...) It was also told that The Body Shop was to be based in and run independently from its head office in Littlehampton, West Sussex, like before (Body Shop agrees…). Additionally, Roddick was to conserve her function as consultant of The Body Shop along with accepting L'Oréal's proposition to even become consultant for the company, in order to share her experience in fair trade (L'Oréal annonce une offre…).

However, although it was emphasised when announcing the acquisition that The Body Shop's management team of the time would be maintained (e.g. L'Oréal annonce une offre…) and although Agon stated in October 2006 being *very happy and proud* that no key managers of The Body Shop had resigned after the deal (Jones 2006), on 12th June 2006 The Body Shop reported changes in its Board of Directors. Peggy Bruzelius, Howard Mann, Jack Keenan, Irene Miller, and Gordon Roddick resigned from the board while Jean-Paul Agon, Richard Cymberg, Sylvia Jay, Christian Mulliez, Geoff Skingsley, and Tom Vyner from L'Oréal joined it. Peter Saunders (CEO of The Body Shop) and Anita Roddick continued in the board as before, and Adrian Bellamy's role was changed from Executive Chairman to Non-Executive Chairman. (The Body Shop International PLC – Board…) It can be speculated, however, that L'Oréal tried to hide these changes, considering Agon's already noted statement from October 2006 and another statement in The Body Shop's Values Report 2007 where he says that The Body Shop is:

...a separate business unit, with the excellent management team ***remaining in place****, reporting directly to myself [Agon].* ***Ensuring continuity of the management team*** *was an important initial step to ensuring continuity in upholding the Values.*

5.2.3 Public's concern

This chapter gives an introduction to the discussion on the second research question about challenges related to acquiring a company with a different corporate image. The case acquisition got a lot of attention from the media, and although the financial world took the news positively as they saw the great expansion opportunities created by it (Stuart 2006), the public in general was concerned and shocked. A common accusation

in the press was about Roddick *selling out* her values, as she has been known for rebelling against the typical multinational conglomerates' corporate mentality (Costello & Groves 2006). L'Oréal certainly has not been saved in Roddick's earlier comments; in 2003 she in fact published on her website an article called "Because You're Not Worth It", in which she criticised L'Oréal heavily for firing a sales woman for not being *hot* enough. In the article, she described the beauty industry as one that *thrives on making women feel insecure and inadequate*, that *promotes unattainable ideals and sabotages self-esteem*, and that is *hell-bent on making women feel inferior* (Roddick 2003). Less directly against L'Oréal, she has publicly said that it is untruthful to claim that one can get rid of wrinkles with anti-wrinkle creams, a comment which among other brands targets L'Oréal's products too (Roddick: anti-wrinkle creams…). Actually, Owen-Jones (former CEO of L'Oréal) referred to these comments in a London press conference by stating that he has always admired Roddick as a businesswoman although some of her earlier remarks have offended him (Costello & Groves 2006).

Hence, it is not surprising that after Roddick seemed to *change her mind* in just a few years such a negative reaction ensued. She also gained £130 million (€190m) in the sale, which adds to the public's negative picture. Roddick herself commented in the London press conference that she was not selling out and that *L'Oréal has displayed visionary leadership in wanting to be an authentic advocate and supporter of our [The Body Shop's] values*. (Farquharson 2006.) According to her, also the assumption of her *sitting next to an enemy* was completely incorrect (Costello & Groves 2006).

Various activist groups displayed some of the strongest negative reaction to the acquisition. They were concerned about the acquisition because L'Oréal is claimed to continue using animal tested ingredients in its products (although it has stated to have stopped animal tests on its products in 1989) (e.g. Smith 2006) while one of The Body Shop's five core values is "Against animal testing". Another issue of concern is Nestlé – one of the world's most boycotted brands (More than a third…) – who owns 27,9 % of L'Oréal and has for long had a stain on its corporate image because of the use of questionable marketing tactics for baby powder milk in Third World countries (e.g. Croft 2002). These problematic images of L'Oréal and Nestlé resulted in calls for boycott against The Body Shop by various activist groups after the announcement of the acquisition (Booth 2006). These issues will be further discussed in Chapter 6.2.2.

5.2.4 Financial outcomes

Because this study is linked to the question of whether acquiring a company with a different corporate image can be successful, it is interesting to look at the financial outcomes of the case acquisition.

In the press release of 17th March 2006, L'Oréal told that it expects the acquisition of The Body Shop to have a neutral impact on profit per share in 2006 and after that a positive impact on profit per share (L'Oréal annonce une offre...). In fact, the acquisition has resulted in a strong increase in L'Oréal's sales. In 2006 sales rose by 8,7 % (Strong growth in…) while during the first half of 2007 growth was 9,4 % (First half 2007…). For example, an analyst at Morgan Stanley London, Michael Steib, describes the takeover of The Body Shop as an *out-of-the-box acquisition*, which at first encountered plenty of scepticism but turned out as *a good deal for L'Oréal financially* (Weil 2007).

As for The Body Shop's results under the ownership of L'Oréal, its profit or loss have not been disclosed since the acquisition (L'Oréal discloses acquisition…) but its impact on consolidated sales as well as on operating profit have been revealed. During the last half of 2006 (July–December) The Body Shop's sales amounted to €435 million and its operating profit was €58 million (L'Oréal 2006_annual report, 12). Sales of the first half of 2007 (January–June) totalled €341 million (First half 2007…). Because The Body Shop's financial year before the acquisition started in the end of February, no data is available for the same period of time[30], but some comparisons can still be made between these figures and those of The Body Shop's last financial year (52 weeks ending 25th February 2006). The sum of the sales from the last half 2006 and the first half 2007 were equal to €776 million representing an increase of 8,5 % if compared to the sales of 2005–2006, €715 million (The Body Shop International plc Annual report 2006, 37). It is not very surprising taking into consideration that during that time, 145 new The Body Shop stores were opened, which takes the number of stores to the current 2321 (The Body Shop values report, 14; L'Oréal half year report 2007, 20). Furthermore, The Body Shop's operating profit before the acquisition was €60 million and under L'Oréal, almost the same number (€58m) was reached in just half a year (The Body Shop International plc annual report 2006, 37). However, according to L'Oréal, The Body Shop historically does *practically all of its profit* in the second half of the year and that must be taken into account when comparing these two numbers (Q4 2006 L'Oreal…).

---

[30] i.e. before the acquisition, data about the first quarter of the financial year refers to the period between the end of February and the end of May and after the acquisition it refers to the period between 1st January and 31st March.

Even during the first eight weeks of The Body Shop's financial year starting 26th February 2006 (after the announcement of the acquisition but before it was final), the company's sales increased by 8 %, which suggests that L'Oréal's offer did not have a negative impact on consumers behaviour despite the public reaction and the calls for boycotts (Costello 2006). Besides, in a survey conducted in the U.K. in spring 2007 by YouGov[31], The Body Shop was placed into the highest rank of green brands. In the survey, the respondents were asked to rate brands based on their attitudes to the environment. (OTC: The greenest…) It seems thus that The Body Shop's image would not have been hurt as much as it was might have been feared.

[31] YouGov plc is a professional market research agency that collects data online in the United Kingdom (http://www.yougov.com).

6 CASE ANALYSIS

Although it has been established that corporate identity refers to a company's *sense of self*, and that it is formed over time and therefore not easily altered, there is evidence implying that it, in fact, can be changed profoundly in a case of a real corporate trauma, such as an acquisition (Ind 1992, 19–20). And, because corporate image is based on corporate identity, it is only a matter of time before this change in identity is reflected in image as well.

Balmer and Gray (2000, 256) have listed ten environmental forces that, according to them, have led to increased importance of strategic management of corporate identity during the last decade. One of these forces is mergers, acquisitions and divestitures, the number of which has constantly been high. They can seriously revise a company's business profile, and, a typical consequence of an acquisition is in fact a formation of a gap between the public image of a company and its real identity. This can be very confusing both to the customers and financial markets and lead to a reduced support from them. Hence, the authors consider that the images of various companies worldwide have been blurred and even altered because of these forces and that they threaten strategic positions of companies. However, the forces also offer companies a chance to display a distinct image reflecting a positive identity and resulting in a good reputation. (Balmer & Gray 2000, 258–259.)

The whole of Chapter 6 concentrates on analysing the research questions of this study through the case acquisition presented in the previous chapter. Chapter 6.1 concentrates on why the case acquisition was concluded despite of corporate image differences, Chapter 6.2 discusses various challenges that might be faced in M&As because of corporate image differences, and Chapter 6.3 focuses on corporate image management in M&As.

6.1 Acquisition motives

As noted earlier, failure rates in all M&As are extremely high. Also, it has been established that a large part of M&As fail due to problems related to *soft* issues – which also include corporate image – because acquiring companies tend to excessively concentrate on *hard* issues, such as financial and business fit. Therefore, it is relevant to question whether there is any rationality in acquiring a company whose corporate image is very different from the acquirer's image.

Melewar and Harrold (2000, 29) have in their study analysed the DaimlerChrysler merger, which is considered a textbook example of a failed M&A. The authors' discus-

sion of the case supports the suggestion of the importance of corporate identity as a factor affecting post-M&A success. They add that if attention is paid to corporate identity issues, the estimations on integration success are facilitated, as is the providing of a framework for integration management. Melewar and Harrold (2000) also present a framework that helps a company to assess the target's corporate identity through the different elements constructing it, and it will be introduced later in Chapter 6.2.1.

6.1.1 Motives to the case acquisition

In a press release (L'Oréal annonce une offre…) about the realisation of the acquisition L'Oréal and The Body Shop state that they form an ideal partnership, The Body Shop being complementary to L'Oréal's existing brand portfolio. L'Oréal has in fact in its quarterly earnings presentation in February 2007 commented that through the acquisitions of The Body Shop and Sanoflore it is enhancing its positioning in the natural products' segment. According to Agon, while the emergence of the natural market has been clearly seen in Europe and elsewhere and while there were only a small number of brands with that positioning in L'Oréal's brand portfolio, the company felt that – as a world leader in beauty products – it should be able to fulfil everyone's desires instead of satisfying only one type of business. Hence, L'Oréal believes it is useful for it to seek to *establish its footprint* in the natural market and this is described as a *very significant avenue of development* for the company's future. In addition to the acquisitions, the company has also got plans for its existing natural brands; it is for example working at the moment with the laboratories to further boost Garnier's[32] position in the market. (Q4 2006 L'Oreal…) Therefore, The Body Shop's naturalness can be seen as the most important motive to the acquisition, which suggests that corporate image differences were not avoidable.

In the media, it was widely speculated that L'Oréal would have bought The Body Shop in order to gain ethicality and the acquisition was compared to Unilever's acquisition of the ice cream maker Ben & Jerry's and Cadbury Schweppes' acquisition of Green & Black's organic chocolate business (see e.g. Harrison 2006; Walsh & Finch 2006; The body beautiful…). Certainly, The Body Shop's strong values and distinct culture form an important motive for the acquisition and Roddick has even stated that L'Oréal bought The Body Shop *for its ethical reputation* (Jones 2007). L'Oréal has, however, made a distinction between naturalness and ethicality, and it says (Q4 2006 L'Oreal…) that while it admires The Body Shop's strong values, it has *nothing to envy*

[32] Garnier was probably the most naturally positioned brand in L'Oréal's portfolio before the acquisitions of The Body Shop and Sanoflore.

to The Body Shop in relation to them. Instead, The Body Shop's corporate values are regarded to be complementary to those of L'Oréal, the ones they are really proud of. Agon emphasised that the acquisition was *not a way of purchasing ourselves [to L'Oréal] a good conscience* (Q4 2006 L'Oreal…). However, The Body Shop's devotion to ethical values can already been seen in L'Oréal newest actions. From the beginning, L'Oréal has showed special interest in The Body Shop's community trade initiative and in association with the takeover Roddick was invited to become a consultant at L'Oréal to share her knowledge of these issues (Nguyen 2006; L'Oréal annonce une offre…). The collaboration with Roddick did not last long because she passed away in September 2007 – only one and half years after the acquisition – but she had already done enough to ensure the upcoming launch of fair-trade products that contain ingredients such as Ghanaian cocoa butter, bought from her contact network. L'Oréal has also become a member of a group promoting palm oil's use and growth, partly due to The Body Shop's involvement in the area. (Jones 2007.)

Additionally, Bellamy (chairman at The Body Shop) believes that The Body Shop's skills as a global retailer can benefit L'Oréal (L'Oréal annonce une offre…); the firm has experience of a chain of company-owned stores and franchising, but also of e-commerce and direct selling through The Body Shop At Home. L'Oréal has also stated that The Body Shop stores function at the moment as *flagship stores* being already present in some countries in which L'Oréal has not yet been introduced. Hence, through The Body Shop, L'Oréal has a foot in the door into these markets. (Q4 2006 L'Oreal…) However, the speculations (e.g. Buckley 2006) of L'Oréal wanting to diversify into retailing through the acquisition are denied flatly: Agon states that L'Oréal is *not looking for opportunities in the retail sector*. He adds that L'Oréal does not even regard The Body Shop as being in retailing business – but as a cosmetics brand with its own points of sale – and he points out that the company actually already has L'Oréal, Lancôme, and Kiehl's stores. The company has also highlighted that L'Oréal does not wish to sell any of its other brands in The Body Shop's stores. (Q4 2006 L'Oreal…)

Finally, L'Oréal believes in its ability to add a lot of value for The Body Shop; speculatively already the 34,2 % premium in the acquisition price signalled this. The company has said that The Body Shop's profitability has been consistent with expectations and the acquisition business plan, and that during the coming year its profitability will be further improved through different methods such as production cost reduction, rationalisation of production, and value enhancement. (Q4 2006 L'Oreal…) Additionally, L'Oréal has vast expansion plans for The Body Shop; according to Agon, The Body Shop will in just a few years have 5000 stores in 100 countries[33]. The Body Shop

[33] In comparison, Body Shop had 2265 stores in 56 countries in the end of 2006.

has recently been launched in China and India, and typical potential markets for it at the moment are Brazil, Argentina and Chile (The Body Shop – Store Locator; Jones 2006.)

Understandably, some of The Body Shop's motives to the acquisition were different from those of L'Oréal. One of the major motives was certainly, as already noted, the significant premium that the acquisition represented to the company's share price; the selling price of £652 million (€958m) was a lot higher than the earlier bids The Body Shop had received. Further, L'Oréal's promise to respect and uphold The Body Shop's values, and to keep it as a standalone entity continuing with the same management team have been emphasised a lot, and these commitments are likely to form another important motive to The Body Shop. Because L'Oréal's reputation has not been stainless while The Body Shop has since the beginning been striving for its ethical values, this kind of arrangements were necessary in order to prevent the loss of The Body Shop's customers. Roddick was, however, very confident that because L'Oréal bought The Body Shop for its ethical reputation, it would not do anything to risk this important investment[34] (Jones 2007).

In the beginning of this millennium, The Body Shop struggled with lack of money for investments in expansion, new products, marketing, and store environments. Typically to a first mover on a market, The Body Shop's uniqueness has suffered after the competitors have started to copy its successful positioning and this could also be seen in the company's decreasing profitability. In search of improvement, substantial reorganisation along with launch of a new strategy transforming The Body Shop into an integrated multi-channel retailer took place in the last four years before the acquisition. These actions improved results significantly and, basing on this background, the board of The Body Shop informed its shareholders to believe *that the offer by L'Oréal not only fully reflects the prospects for The Body Shop Group on a stand alone basis but also provides an opportunity for the furtherance of The Body Shop Group's employees and its social values within a world-class cosmetics company*. (Letter of recommendation...2006, 8.)

L'Oréal's vast resources offer The Body Shop great possibilities for expansion, which in fact is L'Oréal's principle objective subsequent to the acquisition (L'Oréal annonce une offre…). Furthermore, The Body Shop stores will now be redecorated, make-up packages have already been updated, and improvements will be made in marketing, in which L'Oréal has great skills; the company is actually the fourth biggest advertiser in the U.K. (in 2005) with its £100 million (€140m) advertising budget (Body Shop: aiming…; Benady 2006). An additional motive to the acquisition might have been L'Oréal's R&D expertise; an area that has been in the core of the company's strat-

[34] Body Shop brand was valued worth €617m in L'Oréal's 2006 balance sheet (Jones 2007).

egy from the beginning with a budget reaching €533 million a year, and to which The Body Shop now gains access (Welcome to the L'Oréal…).

To conclude, the former CEO of L'Oréal, Owen-Jones, has stated that the combination of The Body Shop's ethics and L'Oréal's market expertise will benefit both companies (L'Oréal annonce une offre…). Agon has later added that he is convinced that L'Oréal will have *excellent cooperation with the Body Shop team and [that] the medium and long term prospects seem absolutely excellent* (Q4 2006 L'Oreal…).

6.1.2 Alternatives for L'Oréal and factors in favour of the acquisition

Whereas previous chapter introduced motives to the case acquisition by both companies, this chapter studies potential alternatives L'Oréal might have had to achieve the same objectives while avoiding to acquire a company whose corporate image is greatly different from its own image.

As noted earlier, M&As are often thought as an alternative mode to gain market entry or growth (see Chapter 2.2.3). In the case acquisition, the main objective seems to have been product extension, that is, expansion to natural cosmetics, which can on the other hand be regarded as market entry (market referring to the natural segment, not to geography). On the other hand, the acquisition in all probability also aimed at gaining growth as The Body Shop became the third leading world cosmetic brand in L'Oréal's portfolio (Q4 2006 L'Oreal…). Therefore both market entry modes (Pan & Tse 2000, 538) and external strategies for company growth (Weston & Weaver 2001, 122) presented in Chapter 2.2.3 should be considered as alternatives. Out of the non-equity modes, only different types of contractual agreements are discussed here export being excluded as irrelevant to the case (as L'Oréal wanted a product extension instead of expansion in geographical markets). **Licensing** is a method used by L'Oréal for some means and its newest license agreement is Diesel fragrances (L'Oréal 2006_annual report, 5). However, when entering an almost totally new segment, a licence would probably have been insufficient unless L'Oréal had wanted to proceed slowly. In selective fragrances, for example, L'Oréal already is the market leader with 15 % of the market share and three brands in the world top ten and therefore a licence in that situation was an adequate solution (Q4 2006 L'Oreal…). Although the company already had some natural products, it now aspired to become extremely well represented in the segment, so licensing could not be regarded as a proper alternative. **R&D contract** did not seem appropriate either in the situation, as L'Oréal already possessed extensive R&D expertise but lacked a wide selection of natural products. The company is also involved in different **alliances**, for example its dermatologic brand Galderma partici-

pates in two alliances in relation to sales and marketing, and R&D (L'Oréal 2006_annual report, 83). An alliance might have been a useful alternative to the acquisition if the scope of it had been large enough. However, it is questionable if any natural brands would have been interested in an alliance with L'Oréal, regarding the potential damage to their corporate images to which it might have led.

Erramilli et al. (1997, 738–739) have introduced research results indicating that the most usual company-specific advantages, such as R&D intensity, advertising intensity, global experience, and company size, encourage the use of higher-equity modes of investment. In fact, all of these four elements are characteristic to L'Oréal, which would then suggest that equity modes are more favourable for the company. L'Oréal is already familiar with at least **joint ventures**; it has one with 3 Suisses, both companies owning a 50 % share of Club des Créateurs de Beauté[35]. The company has additional joint ventures together with Nestlé, such as the earlier mentioned brand Galderma, and Innéov which combines L'Oréal's dermatologic skills with Nestlé's nutrition expertise. (L'Oréal 2006_annual report, 65; 83; 79.) Joint venture probably could have been an alternative way to reach the natural cosmetics market, but again, the scope might have suffered in that case. Also this alternative would have required further consideration of image related challenges, which might have been easier to overcome in an acquisition. Finally, a wholly owned subsidiary could have, instead of an acquisition, been a **greenfield** investment. Disadvantages when compared to an acquisition would have included the slowness of building a subsidiary from scratch and the scarcity of experience in natural cosmetics. It would also have taken a huge amount of time and effort to gain an image even nearly as good as that of The Body Shop. Even though The Body Shop's image suffered a little in association to the acquisition, consumers are generally relatively ignorant of brand architectures, and when the acquisition has been away from the headlines for some time, the majority of consumers forget about it (Ritson 2006). It is thus significantly easier to repair the damage caused to The Body Shop's image by the acquisition than to develop such an image from the beginning.

Although it has already been concluded that M&A failure rates are high, and that those of cross-border M&As are even higher, some factors are in favour of conducting the case acquisition. First of all, the failure rates are lower in horizontal acquisitions (Kitching 1974) and when acquiring a company in the core business (Bleeke et al. 1990). It also seems that the acquisition was executed totally in line with the general corporate strategy, an element that lowers the risk to failure. Another component benefiting L'Oréal could be its experience in acquisitions. Zollo and Singh (2004) have researched 228 acquisitions in the U.S. banking industry and discovered that accumula-

[35] Le Club des Créateurs de Beauté is a cosmetics mail order and internet sales specialist founded in 1987, present in France, Germany, Belgium, China, Japan and Taiwan.

tion of experience did not itself affect acquisition performance. But if the company codifies knowledge from previous acquisition experiences, that is, firstly knowledge of the acquisitions is collected in explicit forms, and secondly tools for implementing the different acquisition phases are produced and updated, that can lead to a better understanding of the factors determining the performance in the company. The authors concluded thus that *the higher the degree of knowledge codification from previous acquisition experiences, the better the economic performance resulting from the focal acquisition*. Unfortunately, L'Oréal does not disclose much information about its acquisition policy because of confidentiality issues, and therefore it can only be speculated here that it is likely that L'Oréal uses some kind of codification of acquisition experience regarding the company's strong skills in this area. L'Oréal has executed several acquisitions successfully while no failed acquisitions by it have been reported.

6.2 Potential challenges related to corporate images differences

This chapter discussed the various challenges related to corporate image differences in M&As by starting at the pre-acquisition phase with issues that should be considered before conducting an acquisition. The second sub-chapter focuses on the acquisition stage with matters related to crisis management and public's reactions to corporate image differences when announcing the deal. Finally, the post-acquisition stage with integration issues is handled in the last sub-chapter. Additionally, reasons behind all these challenges are explored.

6.2.1 Pre-acquisition considerations

As noted earlier, cultural and psychological questions (i.e. *soft* issues) are often regarded as one of the most crucial elements determining if an acquisition becomes a success or a failure. To identify these issues and to assess whether and how they can be managed, Melewar and Jenkins (2000, referred to in Melewar & Harrold 2000, 21) have presented a *framework for corporate identity analysis*. The framework offers a list of key elements of corporate identity to be reviewed in association with due diligence, in order to gain a better understanding of potential synergies and integration problems. The corporate identity is first divided into five dimensions: Communication and visual identity, Behaviour, Corporate culture, Market conditions, and Firm, product and services. These dimensions are each further composed of different factors by which they are driven (presented in Figure 11).

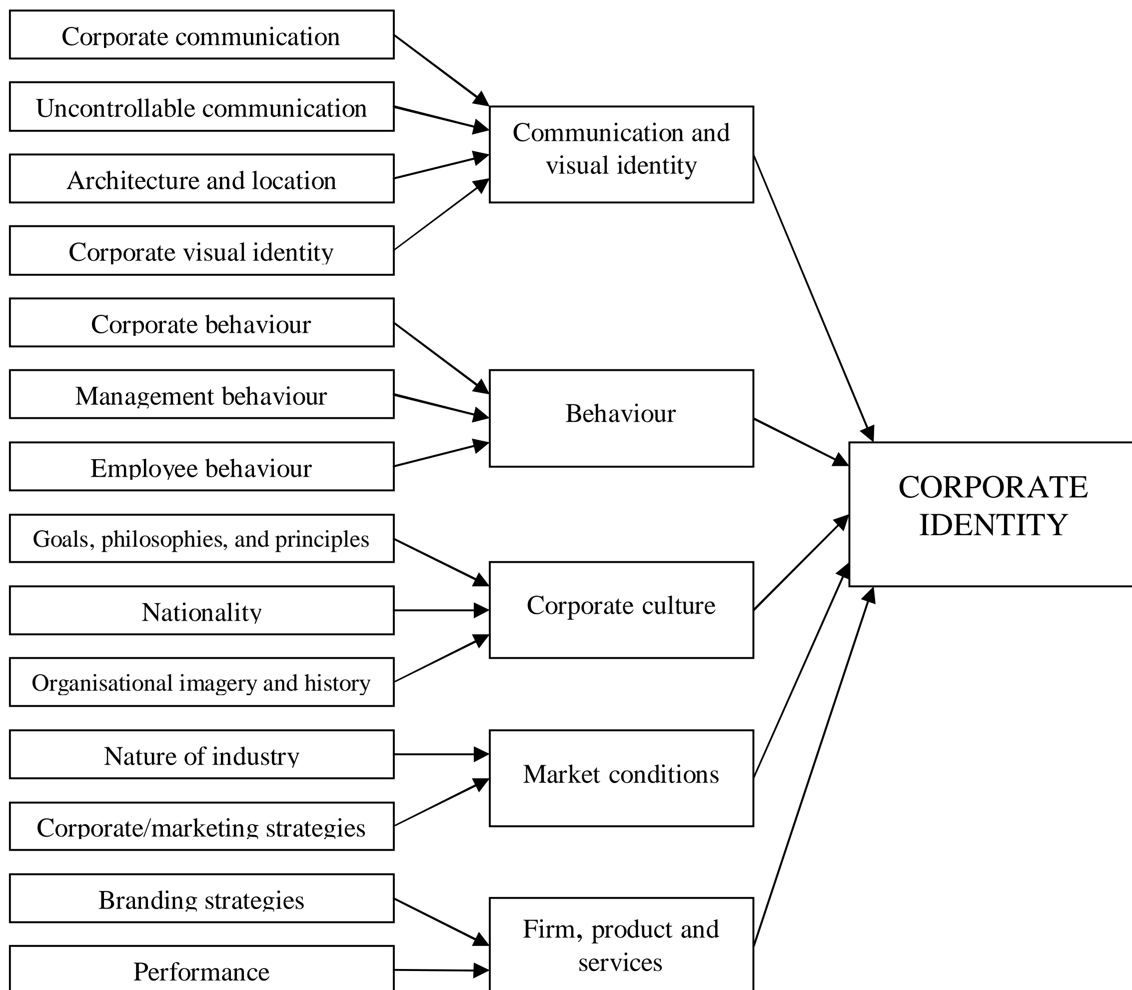

Figure 11 A framework for corporate identity analysis[36]

With the help of the framework, it is possible to assess the corporate identity issues in the case acquisition and to understand what kind of subjects were important to be considered before L'Oréal acquired The Body Shop. To begin with, **communication and visual identity** includes issues related to (a) corporate communication, (b) uncontrollable communication, (c) architecture and location, and (d) corporate visual identity. It is important to identify the key stakeholders in the M&A and to be aware of their potential gains and losses associated with the acquisition. For the customers, the acquisition did not signify many changes (except for those participating in boycotts) because no products were eliminated and the post-acquisition integration did not do any damage to the customer service. Also the relationships with local communities, employees, and suppliers remained relevantly unchanged because there were no layoffs, factory clo-

[36] Source: Melewar & Jenkins 2000, presented in Melewar & Harrold 2000, 22.

sures, or renewals of suppliers. For The Body Shop's shareholders the acquisition signified a considerable premium while other investors can also be assumed to benefit from the acquisition's future results. Also dealerships and locations remained unmodified along with the corporate visual identity: L'Oréal continues having a diversified structure whereas The Body Shop maintains its name and brand and seems independent to consumers just like before.

All levels of behaviour (corporate, management, employee) derive from matters related to the **corporate culture** and therefore the latter will be discussed first. Corporate culture is composed of (a) goals, philosophies and principles, (b) nationality, and (c) organisational imagery and history. As already pointed out, The Body Shop strives for producing high quality but affordable natural products and it follows a number of principles regarding animal protection, community trade, self-esteem, human rights and environment. Simultaneously, also L'Oréal aims to produce affordable high quality products but its principles are more about high levels of R&D and concentration on expertise. Although the companies' aspirations are quite different, it is advantageous that their products are complementary. There are also differences related to nationality between these companies, as The Body Shop is based in the U.K. while L'Oréal's headquarters are located in France. According to Hofstede's (1980) findings about national differences, these two cultures differ most in terms of uncertainty avoidance and power distance[37], two elements that necessitate attention in the acquisition management. Finally, the companies' histories are quite different: L'Oréal is soon celebrating its hundredth anniversary (founded in 1909) while The Body Shop just had its 30th anniversary (founded in 1976). During their histories, both companies have expanded tremendously, The Body Shop organically and through franchising and L'Oréal through acquisitions. All these corporate culture related elements explain at least to some extent why the companies' corporate cultures – and further behaviour – were so different.

However, it can be assumed that in the case acquisition, the differences in corporate cultures were not easily overlooked because they were so apparent. In a way, this could be considered even beneficial, because problems related to **behaviour** surely were expected to arise and thus did not come as a surprise. In acquisitions where the corporate cultures appear similar, the situation might be contrary if the soft issues are not paid enough attention in the due diligence. It was not likely that in the case acquisition, the companies could have merged their corporate cultures without very strong management leadership, and even so, it could have caused extensive problems. However, maintaining L'Oréal and The Body Shop as their own entities even after the acquisition largely prevented these potential problems.

---

[37] Both risk averseness (uncertainty avoidance) and hierarchical structures in organisations (power distance) are very characteristic to France, contrary to the situation in the U.K.

Market conditions compose another factor to be considered before an acquisition and they include (a) nature of industry and (b) corporate/marketing strategies. The case acquisition did not have an effect on the industry structure, thanks to the products being complementary. Additionally, the consumers and merchants were not affected considerably by the corporate level changes because of the strength of product brands. Neither were the corporate and marketing strategies significantly modified as The Body Shop continued to follow the same principles on which the corporate and marketing strategies are based and that made it a successful business in the first place. Hence, on this aspect there were no considerable changes for the consumers and merchants.

The final element is **firm, product and services**, composed of (a) branding strategies and (b) brand performance. As already noted, the product brands of both case companies are very strong and little dependent of the corporate brand of L'Oréal. Each brand has performed impressively on a global scale and the main challenge after the acquisition has been to minimise L'Oréal's corporate brand's negative effect on the The Body Shop product brand.

6.2.2 Reactions to the case acquisition

The case acquisition received enormously media attention during the few weeks around the conclusion of the deal, which signifies that also challenges related to the acquisition phase were reported more than those associated with other stages. In the acquisition stage challenges regarding corporate image differences concern principally stakeholders' reactions, because corporate image refers to their picture of the company and this picture quite inevitably is altered as a result of combination of two different images. This chapter begins by introducing stakeholders' reactions to the case acquisition and then moves to various reasons that might explain the reactions.

As pointed out earlier, the corporate image and value differences between L'Oréal and The Body Shop did not go unnoticed in the public. The **press** suggested that there might even be a trend of companies trying to buy themselves ethicality instead of actually being ethical in their every-day actions (see e.g. Harrison 2006; Walsh & Finch 2006; The body beautiful…). There were a lot of speculations about how much harm L'Oréal could do to The Body Shop and how these two companies did not fit together, and the overall tone of the articles was very negative. At the same time, different **activist groups** took a predictable unfavourable stand on the matter and Naturewatch and Baby Milk Action among others encouraged consumers to boycott The Body Shop after the acquisition. The major reasons referred to in the boycott calls were L'Oréal's use of animal tested ingredients and Nestlé's use of questionable marketing tactics for baby

powder milk in Third World countries (e.g. Smith 2006; Croft 2002). Also, directly after the takeover news, ECRA[38] lowered The Body Shop's *Ethiscore* from 11 down to 2.5 out of 15, which is classified as *very poor* (Corporate Critic Companies.)

Consumers shared to some point the concerns of press and activist groups, but the boycotts never became economically effective – since the acquisition The Body Shop's sales have been growing, and for example in the first half of 2007 they rose 7 % (Jones 2007). However, this kind of criticism from press and activist groups certainly has an impact on some customers and finally also on the corporate reputation (Gray & Balmer 1998, 699). In fact, according to YouGov's BrandIndex, among consumers the overall reputation of The Body Shop worsened substantially after the acquisition became public (Stuart 2006). Three weeks after the announcement The Body Shop's *satisfaction rating* had dropped by a huge 11 points down to 14. Another rating by YouGov – called *buzz rating* that indicates whether consumers have heard anything negative or positive about a brand recently – fell by 10 points to -4, which encourages the interpretation that the news of the acquisition was considered as negative among consumers. (Milmo 2006.)

Chapter 3.2.3 looked at corporate image management and the different actions a company can take to ensure a good image and reputation. However, exactly like human beings, companies can control their reputations only to a restricted extent (Bromley 2001, 320). It is typical that only one or a couple of a company's brands affect excessively the corporate image and reputation, in either a positive or a negative way (Varadarajan et al. 2006, 196). Market leaders and brands with annual sales exceeding US$1 billion tend to have a significant positive impact on the corporate image while especially brands with images not in line with the intended corporate image tend to have a very negative impact to it (Varadarajan et al. 2006, 203–204). This would suggest that L'Oréal's other brands not being in line with The Body Shop's intended corporate image could explain the caused damage to The Body Shop's image after the acquisition.

Firth (1990) has stated that Company A's reputation is likely to be affected by an associated Company B's reputation, only because they are connected. Hence, Company A's reputation could suffer because of Company B's actions or reputation through *guilt by association*, or conversely Company A could profit from Company B's *reflected glory of success*. In the same way, The Body Shop's image clearly has suffered because of L'Oréal's and Nestlé's less ethical actions and reputations, just through guilt by association.

---

[38] ECRA (Ethical Consumer Research Association) is a non-profit consumer organisation seeking to promote human rights, environmental sustainability, animal welfare, and provide information on the social and environmental track record of well-known organisations (http://www.ethicalconsumer.org/aboutec/ aboutus.htm).

Also a study by Simonin and Ruth (1998) on brand alliances' effects on consumers' brand attitudes suggests that companies can have an enormous effect on each other if they are connected in consumers' minds. Their discoveries included that brand alliances affect significantly the partnering brands, and that both *product and brand fit* as well as *prior attitudes towards the partner brands* affect significantly the consumers' attitudes toward the alliance. This research can be considered as shedding some light to The Body Shop's situation as well, although one has to keep in mind that in alliances the connection between two companies is different than in an acquisition. In an acquisition the connection between the partner companies is probably regarded even closer than in an alliance, but the connection may at the same time be highlighted a lot less. However, if in an alliance the connection between two companies is bound to affect both brands significantly, it could be assumed that in an acquisition the effect also is substantial. The attitudes towards L'Oréal and The Body Shop prior to the acquisition (which were relevantly different) and brand fit (which can be argued to not have been optimal) also would have affected significantly the consumers' attitudes toward the acquisition, if comparable with the research results about alliances.

These findings explain at least to some extent the negative reactions to the acquisition by some of The Body Shop's customers. The connection with L'Oréal certainly had a negative impact on The Body Shop's corporate image, causing boycotts and decrease in reputation scores. The acquisition is, however, not the first time when The Body Shop's actions have been criticised; in fact, the company has been under constant observation for errors almost since its foundation. In the 1990s there was a peak of negative press in relation to The Body Shop, and examples include a 1992 television documentary that incorrectly accused the company for making false claims about its position against animal testing, along with writings (that were later proved untruthful) in the magazine Business Ethics in 1994 charging The Body Shop with hypocrisy in environmental standards, charitable contributions, and efforts to buy materials from the Third World (Wallace 1996).

The concept *promise/performance gap*, that has been introduced by Greyser (1999, 180), goes a long way explaining why consumers are so emotional in relation to The Body Shop. The concept refers to a gap that can be formed between the consumers' expectations and the *perceived delivery of the service/product*. If a company fails to live up to public expectations, it tends to result in decline of consumers' trust in the company, which, in turn, is likely to affect sales and share price. The higher the consumers' expectations are, the higher is the risk. Hence, for companies like The Body Shop positioned as socially and ecologically responsible, this risk is even higher because the promises raise consumers' expectations. Greyser (1999) suggests that the prom-

ise/performance gap forms a *serious potential trap* for this kind of companies and this risk is not shared by most of their competitors.

Promise/performance gap is thus a result of misalignment between different types of identities of a company, such as desired identity, communicated identity, actual identity, and conceived identity. In The Body Shop's case, in the early years the desired identity corresponded to the communicated one. Later on, however, the company met a large amount of negative press with critics accusing that the company did not meet its own standards. The Body Shop completed an ethical audit which, in fact, revealed discrepancies between the communicated and actual identities (i.e. between the policy statements and the underlying reality) while the growing media attention led to scepticism in the public and further to changed perceptions of the company (conceived identity[39]). The core of these problems lay in the increasing disparity between Roddick's vision (desired identity) – which was reinforced by communications (communicated identity) – and the public's assessment of the actual company identity not being as distinct as declared (conceived identity). (Balmer & Greyser 2002, 83.)

Prior to the acquisition, Roddick had created an image of The Body Shop as a company different from others; as a company that did not run for financial causes but for social and ethical responsibility in business. Throughout her career, she had accused the beauty industry of lying and trying to make women feel inferior, and as stated earlier (see Chapter 5.2.3), Roddick had even criticised L'Oréal directly in the past. The acquisition evoked therefore feelings of public betrayal; The Body Shop had given the consumers the idea that it was faultless and above companies like L'Oréal. Because of its corporate image, it was not judged based on the same rules as other companies would have been, but based on expectations of a higher level, ones that The Body Shop itself had created.

6.2.3 Challenges in the post-acquisition stage

Haspeslagh and Jemison (1991, 130) have pointed out that *combining two organisations always destroys psychic value.* The term "psychic value" refers to various nonmonetary gains that a person gets from being employed by a certain company. Its destruction can result in resistance to change, which in turn can manifest itself for instance as loss of motivation. If this is the case in M&As in general, signifying that even a combination of two companies with very similar corporate images is value-destructive, it can be assumed that the situation is even more challenging when companies with different corporate images are to be combined, like in the case acquisition. Weber,

[39] Conceived identity is referred to as image in this thesis.

Shenkar and Rahev (1996, 1225) have additionally discovered that differences in corporate cultures cause negative attitudes toward the M&A, but that it is the national culture differentials that are more likely to produce stress, less cooperation, and these negative attitudes than the corporate culture. Also in the case acquisition, a situation of *double-layered acculturation* had to be dealt with, signifying that the companies have to adjust both to a foreign corporate and national culture, making the ability to adapt to new situations undeniably crucial for the acquirer (Barkema & Pennings 1996, 154).

However, differences in corporate and national cultures should not be regarded only as a problematic issue but also as a source for potential opportunities with regard to resources (Shimizu et al. 2004, 334). For instance, according to a study by Larsson and Finkelstein (1999, 15), strategic differences between the joining companies can in fact generate *synergistic complementarities* through a combination of different operations. This further boosts synergy realisation and thus improves the likelihood of the acquisition's success. It is helpful to managers to adopt a global way of thinking in order to view the acquired company not from their personal cultural point of view, but from a wider perspective that appreciates the value of the diverse cultural viewpoints (Shimizu et al. 2004, 334). Beneficially for L'Oréal, the company seems to have adopted this kind of multicultural thinking a long time ago. According to the company homepage, L'Oréal reflects the diversity of its clients when hiring people in its teams at every level, in terms of nationality, ethnic or social origin, and age and "Enrichment through diversity" is actually one of its core values (L'Oréal – Our people). However, these statements should not be believed totally without criticism, due to for example a court decision in July 2007 where L'Oréal was found guilty of carrying out a racist recruitment campaign some years earlier (Garnier, Adecco fined…) but this matter will not be further speculated here.

6.3 Managing corporate images in M&As

Earlier in this study theories on corporate image management have already been sought to be combined with theories on M&As in order to give some guidelines of how extremely different corporate images of the joining companies should be managed in relation to M&As. This chapter now looks into what kind of strategy L'Oréal had regarding integration of the companies' corporate identity and why a certain strategy was chosen. Finally, some post-acquisition considerations related to corporate image management are discussed.

6.3.1 Image integration strategies

Chapter 3.2.2 introduced various strategies for integration of corporate and product brands and we will now look at the case acquisition on the basis of these strategies. According to Basu (2006, 29), the relationship between corporate and product brands is shaped by the way the company and its products/services have been developed. The case companies represent actually the two opposites as regards this relationship. The Body Shop (product brand) is hardly dissociated from the corporate brand The Body Shop International Plc, and Varadarajan et al. (2006, 203) call this a *branded house*. Meanwhile, L'Oréal is characterised as a *house of brands* by the authors, as it possesses over 500 product brands (Excite careers – L'Oréal) that the consumers do not always recognise as belonging to it (L'Oréal Paris and L'Oréal Professionnel forming two exceptions). L'Oréal has grown remarkably by acquiring but has never linked these new product brands to each other or to the corporate brand (Basu 2006, 32). The same strategy has been followed in the acquisition of The Body Shop; in fact it has been kept separate from other brands even more strictly than any other of L'Oréal's prior acquisitions, in order to maintain its superior image. Because The Body Shop's position essentially changed from a corporate brand to a product brand as a result of the acquisition (although for the consumers it seems more or less unchanged) strategies for integrating both corporate and product brands will be discussed in the following.

As mentioned earlier, the case acquisition was mostly motivated by product/market extension, which is an objective that requires preservation of the existing situation in order to work. Therefore a strategy that maintained both corporate brands was appropriate to the situation. In Basu's (2006) framework this strategy is called *flexible brand* (A&B; cf. Chapter 3.2.2) and it is particularly useful when both companies' offerings are regarded distinct (e.g. in terms of segments, geographies and/or product type) and when the motives for eliminating one of the brands or integrating the two are limited. Hence, it seems that the right choice was made in the case acquisition according to Basu's (2006) typology, because The Body Shop and L'Oréal serve quite different segments and there certainly was not much to justify elimination of The Body Shop brand or integration of the two. Also, The Body Shop represented product and market extension for L'Oréal, because – although both companies are in the beauty business – the natural market is different to the markets (mass, luxury, professional) in which L'Oréal was active prior to the acquisition.

According to the framework by Zaheer et al. (2003, 189), a merged firm's organisational identity should be decided based on two dimensions: relative strength of organisational identities and combination potential. The case companies had both very strong – but also very different – identities (classifying them as Case A; cf. Figure 6 in Chapter

3.2.2). Simultaneously, combination potential was high in principle because both companies are active in the global cosmetics market. The companies actually stated that the combination of L'Oréal's expertise in R&D, marketing, and international markets, and The Body Shop's skills in distribution and strong values would be beneficial to both companies. But at the same time, The Body Shop was to be maintained its own entity, with very little integration between the companies, in order to protect its corporate image. (L'Oréal annonce une offre…) It seems thus, that even though other elements were in favour of a high combination potential, corporate image issues lowered this potential significantly. According to Zaheer et al. (2003, 189) the two possibilities for Case A are to maintain separate identities (if combination potential is low) or to create a new identity (if combination potential is high). In the case acquisition, it can be said that the appropriate choice was made, and both identities were maintained separately. It would certainly have caused a lot of corporate image related problems if L'Oréal and The Body Shop had tried to create a new identity together.

As mentioned, The Body Shop became a product brand as a result of the acquisition and therefore integration strategies for them are also examined. Basu's (2006) model suggests the decision to be made based on two dimensions: offer and message. The case companies wanted to maintain all the existing customer segments of both companies and not to eliminate any of them in favour of the other segments. Subsequently to the acquisition, the differentiation of the two brands has been highlighted while the similarity in the eyes of the customers is limited, signifying that the product integration strategy chosen by L'Oréal was Best Fit. The main benefit of this strategy is the best possible responsiveness to customers' needs while the disadvantages count *cost escalation* because there might be scarce transfer of learning between the business units and some activities might be executed twice.

6.3.2 Motives for maintaining The Body Shop as a separate entity

It appears in the previous chapter that all the presented strategy frameworks suggested the same strategy for the integration of the images of L'Oréal and The Body Shop. In fact, the companies never even speculated in public that other alternatives would have been considered for the acquisition; the message has been consistent from the very beginning. This chapter further explains the decision to maintain The Body Shop as a separate entity after the acquisition.

A look at the original structure of L'Oréal supports the decision over The Body Shop's position. To begin with, L'Oréal's visual structure (typology presented by Ind 1992, 122–124) – that is, the company structure and inter-relations between brands

shown to those exterior to it – has for long been a diversified one, as opposed to a unitary or branded identity. In a **unitary identity**, the same name is adopted throughout the company structure and all products are sold under it; Marks and Spencer and Yamaha being good examples of this type of identity. A company with a **branded identity** has many different brands that do not seem to have any connections with each other, the corporate brand being totally separated from the product brands. Procter and Gamble and Unilever are characteristic of this group. Finally, **diversified identity** is quite similar to the branded one but as a difference, one of its business units is branded in the same way with the company while the rest of them are disassociated. Diversified identity is often a result of many acquisitions. (Ind 1992, 122–124.) In L'Oréal's case, L'Oréal Paris and L'Oréal Professionnel are branded in line with the company brand, forming its most important business unit: L'Oréal Paris is actually the number one cosmetics brand in the world (L'Oréal 2006_annual report, 62). Rest of the company's brands are however not associated with L'Oréal, as mentioned before. Hence, The Body Shop can be seen as just another brand in L'Oréal's diversified structure and a decision to integrate it with another brand would have been incoherent with the structure – that has, in fact, been consistent from the beginning.

According to a framework by Haspeslagh and Jemison (1991, 148), the **preservation strategy** – as opposed to the absorption strategy and the symbiotic strategy – tends to be used when there is a high need for organisational autonomy and a low need for strategic interdependence among the combining companies. The Body Shop's distinct corporate image can be seen as a reason for needing organisational autonomy as a measure of image protection. Meanwhile, it has been seen necessary to pursue interdependence only in some particular areas – according to Haspeslagh and Jemison (1991) these areas are typically related to financial and general management capabilities while the main benefit originates from the ability to provide funding to the acquired company. The latter is, in fact, the main objective for the case acquisition: as explained in Chapter 6.1.1, L'Oréal is planning to double the size of The Body Shop's store network (Jones 2006) whereas before the acquisition The Body Shop had some problems with financing the expansion (Letter of recommendation...2006, 8). Following the preservation strategy signifies thus managing the acquired operations at arm's length (Haspeslagh & Jemison 1991, 148), which is consistent with the case acquisition's strategy (e.g. L'Oréal annonce une offre...). Haspeslagh and Jemison (1991, 148) also point out that although the preservation strategy is often used in association with domain-explorative acquisitions – that is conglomerate M&As – it is applicable to all acquisitions, where major changes in the management, practices, or motivation in the acquired company would jeopardise success. It could therefore be speculated that this strategy might be

especially useful when acquiring a company with a different, yet distinct corporate image that is wished to not be altered.

6.3.3 Post-acquisition considerations

Chapter 3.3 introduced the *merger mix* by Balmer and Dinnie (1999, 189–190) identifying four key drivers for successful M&As. Three of them are relatively closely associated with corporate image management in M&As – further emphasising the importance of corporate image issues to M&A success – namely stakeholders, corporate identity and corporate communications. For that reason, the case acquisition will here be analysed regarding these factors.

Firstly, the joining companies' **stakeholder** groups should be assessed by the level of communication effort that will be required in defeating their potential indifference or opposition towards the M&A. An analysis of both companies' stakeholders should thus be executed and their reactions to the M&A to be followed. (Balmer & Dinnie 1999, 189–190.) The different stakeholders' potential gains and losses associated with the case acquisition were already briefly analysed in Chapter 6.2.1 but the topic can be further elaborated here. It could be assumed that there is a group of The Body Shop's customers that displayed the most opposition to the acquisition, that is, those customers that participated in boycotts[40] and felt betrayed by the company. It is likely that most of these customers were so opposed to the acquisition that the resistance could not have been defeated by any means and these customers have probably been lost as a result of the acquisition. However, judged based on the sales after the acquisition, the great majority of (both The Body Shop's and L'Oréal's) customers did not belong to this group and there was for the most little opposition from their part. This could be overcome through communicating the positive attributes of the acquisition and emphasising the ring-fencing of The Body Shop. Further, local communities and suppliers were not likely to be against the acquisition, as it did not change anything for them, whereas some employees might have resisted the acquisition on the same basis as the boycotting group of customers. It is not known that many employees would have resigned because of the acquisition, and presumably the continuity in all the fundamental matters after the acquisition has helped gaining these persons' acceptance. Finally, The Body Shop's shareholders were probably optimistic towards the acquisition because of the considerable premium to the share price, and even other investors are assumed to benefit from

[40] Unfortunately no information is available of the real scope of these boycotts or for example of the number of customers that were lost as a result of the acquisition.

the acquisition's future results. Hence, little effort was in all probability required to convince them to support the acquisition.

Secondly, both companies' **corporate identities** are to be evaluated, after which it should be decided which of their strengths and weaknesses are to be nurtured, maintained, and eliminated and how these issues are to be managed (Balmer & Dinnie 1999, 190). Although corporate identity evaluation certainly is very useful in relation to M&As, the case acquisition aimed mostly at the preservation of the dimensions of both companies' corporate identities. It can also be noted that L'Oréal has stated to be nurturing its natural dimension (Q4 2006 L'Oreal…) while – although no such statement has been given – it will probably try to get rid of the less favourable, relatively unethical image.

Finally, the joining companies should aim at effective **corporate communications** and avoid conflicts between the joining companies' communicators through construction of communication structures for the new company. Further, a research that examines communication strategy's efficacy, identifies the rise of potentially damaging issues and conflicting messages of joining companies, and observes that perceptions throughout the M&A should be carried out as a part of effective corporate communications. (Balmer & Dinnie 1999, 190.) Unfortunately, because of the confidentiality policy of L'Oréal and The Body Shop it is not known which strategic measures have been taken inside the new company regarding communication. However, to the public the corporate communications seem to have been managed effectively during the acquisition, as no dissonant messages have been sent from the joining companies about the acquisition. A joint press release was given out at the time of the deal's announcement and both companies' websites have shared the same information about the acquisition. Additionally, interviews of the companies' management have not been contradictory.

To conclude, L'Oréal must have done something right in the corporate image management in its acquisition of The Body Shop, because it seems that both companies have maintained good corporate images even consequently to the acquisition, regardless of the great differences between the images. Also financial outcomes support this, because harm to corporate image is bound to affect the company financially as well[41]; instead, the financial outcomes have only improved after the acquisition. There are a number of examples of how similar acquisitions of a company with extremely different corporate image have resulted in worsening corporate images, particularly because of the differences. One such example is the acquisition of Silja Line by AS Tallink Grupp in 2006 that had as a starting point Silja Line's exclusive corporate image and Tallink's

[41] For example Davies (2003, 99) refers to a crisis when a company's reputation is endangered or hurt as a result of unfavourable media statements, causing loss of profit and sales in the short run and harm to reputation in the long run, suggesting that harm to corporate image indeed has financial consequences.

less admired but still good corporate image. However, Tallink has not managed the images very skilfully, resulting for example in losses in passenger volumes, and it is clear that both companies' corporate images have suffered enormously although no research on this issue has been published. (e.g. Jaakola 2007; Koskinen 2007.)

7 CONCLUSIONS

This study has sought to identify issues that are characteristic to M&As with corporate image differences. This chapter concludes the findings through each of the research's sub-question.

The first sub-question of this study is about possible motives for M&As with corporate image differences. This question refers to the high failure rates in M&As (even without the image differences) and to studies (e.g. Nitch et al. 1996; Li & Guisinger 1991) having proved that there are other alternatives to gain growth or market entry with less risk than M&As. Because M&As usually are executed as a result of a bundle of motives and thus it is rarely the case that only one motive would encourage a firm to acquire, this question seeks to find a range of motives. Motives can be divided into two categories, also identified by Trautwein (1990) as two out of his three theory categories of merger motives: M&As with image differences as (1) rational choice and (2) process outcome.

Firstly, it is assumed that M&As with corporate image differences might actually be motivated similarly to any other M&As: if an otherwise appropriate target has been found, the acquirer might not regard corporate image differences as a great enough problem to withdraw from the deal because of them. Although the findings of the case acquisition are not generalisable, they can be used as an example of this type of acquisition. In relation to it, typical motives were mentioned, such as market access; mostly in terms of natural cosmetics market, but also to some level in terms of geographical market. Capabilities represented another motive for L'Oréal in form of The Body Shop's skills, both in ethical matters (e.g. community trade initiative) and as a global retailer. Lastly, synergies were expected to occur in the case acquisition, in form of L'Oréal being able to finance The Body Shop's expansion and to add value to it. It seems that L'Oréal had strong motives for the acquisition and was confident of its ability to resolve all potential image related challenges. Furthermore, L'Oréal's main motive, to gain more footage in the natural market, could not have been achieved through an acquisition of a company with a very similar corporate image, as L'Oréal's image has little to do with naturalness; hence, it appears that L'Oréal could not have avoided image differences in this case.

In addition to consciously acquiring a company with a different corporate image, some companies might drift to such an acquisition less intentionally. Chapter 2.2.2 presented different problems that are related to acquisition decision making (Haspeslagh & Jemison 1991) and these problems can to some extent explain why acquisitions of this kind take place. As introduced, **fragmented picture** is a factor blurring the total picture of the acquisition because different kinds of experts hold different kinds of information.

While this leads to increased attention towards easily quantified issues, it might result in negligence of corporate images along with other soft issues. **Increasing momentum** can also have a similar impact as it is difficult to stop or slow down the acquisition process once it has started. Thus, if great differences in corporate images are noticed, things such as increased commitment might keep the process going regardless of potential doubts. Finally, even **ambiguous expectations** might cause some disregard of corporate image issues, as it refers to questions that have been agreed to be dealt with later on, in order to accelerate the conclusion of the deal. This way, some misinterpretations might occur concerning corporate image – although the latter factor is not as explanative as the two former ones.

In Chapter 2.2.4 a study by Hunt et al. (1987) was introduced, and it was noted, that only about a third of M&As were stimulated purely by financial and business motives. Hence, in most of the acquisitions political and personal motives played at least some kind of a role. It could be assumed that if an acquisition is conducted mostly with personal and egoistic motives in mind, and in negligence of financial questions, the acquirer will not be very concerned about the corporate image issues either. In fact, excessive concentration on any certain motive can be assumed to draw attention from corporate image questions. M&As with corporate image differences could thus at some cases happen inadvertently, because focus has been put on somewhere else.

The second sub-goal for this research is to investigate what kind of challenges the acquirer might encounter if it chooses to acquire a company with a different image and what might have caused these challenges. As already noted, challenges are closely associated to all acquisitions, taking into account their high failure rates (e.g. Capron 1999; Bleeke et al. 1990). More specifically, the high levels of failure are often attached to the excess concentration on business and financial fit instead of cultural and psychological questions (e.g. Gilkey 1991) putting emphasis on the importance of the latter in acquisition success. Hence, a poor corporate cultural fit might easily become a source of challenges – or even a source of failure – in an acquisition. This could be seen as the main challenge in M&As with corporate image differences.

Most often the challenges that concern corporate image issues are related to corporate communications and crisis management. Firstly, it must be borne in mind that a company is communicating at all times through all of its actions and through everything it says, signifying that all communication has an influence on the corporate image, and that it should therefore be managed carefully. In relation to an acquisition, the importance of corporate communications becomes even more critical, similarly to the situation of other organisational changes or crises. In fact, companies that desire to excel use communication management as a means of assisting in transformation because it has a significant impact on the success of the change. (Ströh & Jaatinen 2001, 149; 162.) As

corporate communications is the tool transforming corporate identity into corporate image, its importance in issues related to the image cannot be overrated. Hence, it can be assumed that when a company with a different image is acquired and both corporate image and change related matters require management, corporate communications are of a central significance. The challenge here is to skilfully manage the communications and to arrive at a favourable corporate image as a result.

Another interrelated matter is crisis management, as corporate image defence is of major importance in image management because of its vulnerability. As Chajet (1991, 98) has suggested, it is not possible to envision every potential crisis that could encounter a company, and the feasible thing to do is thus to design a general plan on coping in crises. It could be expected that crises are more likely to arise in association with an acquisition involving corporate image differences.

Post-acquisition integration phase presents one of the key challenges for all acquisitions and the three major problems in this stage according to Haspeslagh and Jemison (1991, 124–135; introduced in Chapter 2.2.2) are determinism, value destruction, and leadership vacuum. It is not likely that determinism would be greatly affected by corporate image differences, although unexpected things arising in the post-acquisition stage might in some cases also be related to corporate image issues. Value destruction is neither regarded to be amplified by image differences. However, it might be possible that the problem of a leadership vacuum is worsened by the image differences if the degree of integration is intended to be high, as regression to the old and familiar behaviours can be extremely harmful in respect to the integration. Then again, if the level of integration is lower, this kind of additional problems caused by the image differences are not likely to occur.

In the case acquisition, the challenges caused directly by the different corporate images regarded mostly the stakeholders' concerns of The Body Shop's future in terms of its ethical standards. Therefore the main task for L'Oréal was to persuade the stakeholders of the acquisition's benefits and to convince them that The Body Shop would continue doing business as before. Hence, although the activist groups' actions certainly created some challenges for L'Oréal and The Body Shop, image disparities never expanded to a real crisis affecting sales or images in the long term – presumably due to well-planned communication. There are some apparent reasons explaining these stakeholder reactions (introduced in Chapter 6.2.2) that all companies planning to acquire another company with a different corporate image should consider. Firstly, there is the statement by Varadarajan et al. (2006, 196; 203–204) about the commonness of a single brand's excessive effect on the whole corporate image; especially if it is a market leader, exceeds annual sales of US$1 billion, or is not in line with the intended corporate image. Secondly, Firth's (1990) comments should be borne in mind: Company A's

reputation is likely to be affected by an associated Company B's reputation – through guilt by association or reflected glory of success – only because the companies are connected. Finally, the study on brand alliances' effects on consumers' brand attitudes (Simonin & Ruth 1998) proposed that companies can have an enormous effect on each other if they are connected in consumers' minds. Matters affecting the consumers' attitudes included product and brand fit and prior attitudes towards the partner brands. Additionally, the challenge of the promise/performance gap was specific to the case acquisition. However, it is not directly applicable to all acquisitions of this kind, but only to companies that have created higher standards for themselves, for example in terms of ethicality. Hence, if acquiring a company positioned exclusively above other companies in some dimension, special attention should be given to issues related to this dimension and additional effort should be put into conserving it.

The framework by Melewar and Harrold (2000, 22) presented earlier in this thesis offers a good technique for predicting challenges that are faced if the acquisition is executed. The challenges might be greater in number if the corporate images are different, but it is very helpful if they have been anticipated, enabling the making of action plans. Additionally, if the analysis is conducted at an early stage and the potential challenges seem insuperable, it is not yet too late to withdraw from the deal.

The third sub-goal in this study is to understand corporate image management in M&As with corporate image differences. Firstly, the management process is substantially affected by the degree of integration after the acquisition. Various frameworks are offered to help the making of this decision, and three different integration strategies were presented in Chapter 6.3.1. They suggest that the level of corporate images' integration should be decided for example based on the type of M&A or on the companies' identities' relative strength and their combination potential. The decision made regarding the case acquisition – to maintain The Body Shop a separate, ring-fenced unit – was consistent with all the presented models and it could therefore be considered that the optimal strategy was chosen. It can also be noted that the case companies' combination potential would have been high if the corporate images had been more similar, but their differences lowered it remarkably, suggesting that image differences might affect the optimal strategy for managing the merged company's organisational identity.

L'Oréal's historical development offers more explanation to the decision of maintaining The Body Shop as a separate unit. As already mentioned, L'Oréal has grown enormously through acquisitions (cf. Chapter 5.1.3) and its visual structure has become a diversified one (Ind 1992, 122–124). Except for L'Oréal Paris and L'Oréal Professionnel, other brands of the company have not been associated to each other. Therefore, it would have been exceptional if The Body Shop was to be integrated to the L'Oréal brand. Furthermore, the preservation strategy tends to be used when there is a

high need for organisational autonomy and a low need for strategic interdependence among the combining companies (Haspeslagh & Jemison 1991, 148), which was the case in the acquisition of The Body Shop.

Corporate image management can be seen as having different phases and several such models have been presented in this study. Ind's (1992) model is used as a basis in order to apply image management to M&As. All the steps are not greatly affected by image differences, such as **industry** analysis (which is more influenced by industrial differences between the companies). However, the **positioning** strategies can be assumed to be substantially different if there are great differences between the corporate images, making their analysis and comparison an important step. Further, incongruities in the joining companies' **identities** can also be anticipated and designing comprehensive plans on the desired integrated corporate identity is therefore an important task in order to enable success of the acquisition. In association with **communications**, it is crucial to confirm that – if the companies are integrated to each other – both of their communications affect the corporate image similarly, regardless of image differences before the integration. The primary goal related to corporate **image** is to examine whether the image is beneficial to achieving the strategy or whether it is obstructing it instead. Two different images might work for extremely different strategies, and thus management of image is certainly needed. If **dissonance** exists between corporate images and strategy achievement, new direction has to be planned for the merged company and its attainment begins from the definition of new **objectives** that are to be agreed by everyone.

Also issues regarding stakeholders, corporate identity and corporate communications are closely associated with corporate image management and all of them require management in M&As. Firstly, the joining companies' stakeholder groups should be assessed by the level of communication effort that will be required in defeating their potential indifference or opposition towards the M&A. For the case acquisition, the hardest resistance – probably unconquerable – came from a group of The Body Shop's customers that participated in boycotts. All other stakeholders were more positive about the acquisition and required probably only little, if any, effort to be convinced to support it. Secondly, both companies' corporate identities are to be evaluated, and the nurtured, maintained and eliminated strengths and weaknesses are to be decided. L'Oréal has stated to be nurturing its natural dimension, and even the acquisition represented one step towards the achievement of this goal (Q4 2006 L'Oreal…). Finally, the joining companies should aim at effective corporate communications; however, the case companies' communications can only be speculated to seem efficient while no information regarding strategic decisions is given to public.

As stated before, there is no proper research base on corporate image differences in M&As and therefore this study has only aimed to combine theories of two different subjects, gather information of one such acquisition, and to get an idea of the type of issues a company should consider when executing such an acquisition. This study can be seen as possessing novelty value because so little has been written on the combination of these two fields of research.

Further, because of the lack of prior research, this subject offers vast opportunities for further study. It would be interesting to learn more about how acquisitions similar to the one analysed in this thesis function, and to research how strong an effect the acquirer's corporate image might have on the acquired company's image and vice versa. If such influences were discovered to be significant, it would be interesting to learn towards which way the scale would tip; if it was the better image that improved the worse or vice versa and if the company that had the better image determined the results. Additionally, the degree of integration might influence this. A fundamental question would be to investigate whether the failure rates in these acquisitions are similar to acquisitions in general. Other interesting areas of research would be distinguishing specific tools for these types of acquisitions, and finding out if they require more management than those of similar corporate images, and if so, whether there is a certain area where this additional management is needed. Furthermore, theories on integration and change management could be combined with issues regarding corporate image management in M&As.

8 SUMMARY

The purpose of this study was to investigate what issues are characteristic to M&As with corporate image differences. The answers were sought with the help of theories on M&As and corporate image and further by analysing a case acquisition. The study has three sub-goals: (1) to investigate how these kinds of acquisitions could be motivated, (2) to investigate the challenges that could be related to this type of acquisitions and the underlying reasons behind them, and (3) to understand how the corporate image should be managed in M&As. The study applied descriptive approach and was conducted as desk research – where only secondary sources are utilised – while using case study as an additional research method.

The case study concentrated on L'Oréal's acquisition of The Body Shop that was conducted in March 2006. The Body Shop's corporate image has always been natural, fair, ethical, and both environmental and animal friendly, whereas L'Oréal is the world's leading cosmetics company concentrating aggressively on innovation and heavy advertising. In the eyes of the large public their corporate images are thus extremely different or even totally opposite. Probably because of the controversies, the acquisition got a lot of attention in the media, and the public in general was shocked and concerned about The Body Shop's future. However, the early results of the acquisition have been favourable, for example in 2006 The Body Shop's sales rose by 8,7 %.

The motives behind M&As with corporate image differences can be divided into two categories: M&As with image differences as (1) rational choice and (2) process outcome. Firstly, it is assumed that M&As with corporate image differences might actually be motivated similarly to any other M&As: if an otherwise appropriate target has been found, the acquirer might not regard corporate image differences as a great enough problem to withdraw from the deal because of them. Although the findings of the case acquisition are not generalisable, they can be used as an example of this type of acquisition. In relation to it, typical motives were mentioned, such as market access, capabilities, and synergies. Although L'Oréal consciously acquired a company with a different corporate image – despite of the fact that between one third and a half of M&A failures are caused by soft issues including corporate image questions – some companies might drift to such an acquisition less intentionally. Acquisition decision making problems, including fragmented picture, increasing momentum, and ambiguous expectations might draw attention from image difference questions or lead to the negligence of them. Besides, only about a third of M&As are stimulated purely by financial and business motives, giving political and personal motives an excessive role in the acquisition decision making. In cases where even financial questions are neglected, it would not be sur-

prising if this negligence extended to corporate image issues as well. In fact, excessive focus on any certain motive is likely to leave less consideration to image matters.

Challenges are closely associated to all acquisitions and the high failure rates are often attached to the excess concentration on business and financial fit instead of cultural and psychological questions (e.g. Gilkey 1991). Hence, a poor corporate cultural fit might easily become a source of challenges – or further, even a source of failure – in an acquisition. This could be seen as the main challenge in M&As with corporate image differences.

The importance of corporate communications becomes critical when acquiring a company with a different image, similarly to the situation of other organisational changes. It could further be expected that different crises are more likely to arise in association with an acquisition involving corporate image differences; hence, crisis management skills are of major importance in this type of acquisition.

Post-acquisition integration phase presents one of the key challenges for all acquisitions. In relation to corporate image differences, special attention should be paid to the problem of a leadership vacuum (Haspeslagh and Jemison 1991, 124–135) because regression to the old and familiar behaviours caused by it can be extremely harmful in respect to the integration, that is, if the level of integration is to be high.

In the case acquisition, the challenges caused directly by the different corporate images regarded mostly the stakeholders' concerns of The Body Shop's future in terms of its ethical standards. Therefore the main task for L'Oréal was to persuade the stakeholders of the acquisition's benefits and to convince them that The Body Shop would continue doing business as before. Various explanations to these reactions have been offered in this study and they can be helpful to all companies planning to conclude an acquisition with corporate image differences. An example of them is the study on brand alliances' effects on consumers' brand attitudes (Simonin & Ruth 1998) proposing that companies can have an enormous effect on each other if they are connected in consumers' minds. Matters affecting the consumers' attitudes included product and brand fit and prior attitudes towards the partner brands.

The framework by Melewar and Harrold (2000, 22) presented in this thesis offers a good technique for predicting challenges that are faced if the acquisition is executed. The challenges might be greater in number if the corporate images are different, but it is very helpful if they have been anticipated, enabling the making of action plans. Additionally, if the analysis is conducted at an early stage and the potential challenges seem insuperable, it is not yet too late to withdraw from the deal.

In the corporate image management, the first and central strategic decision is to select the appropriate degree of integration. Various frameworks are offered to help the making of this decision, suggesting for example it to be decided based on the type of

M&A or on the companies' identities' relative strength and their combination potential. The decision made regarding the case acquisition – to maintain The Body Shop as a separate, ring-fenced unit – was consistent with all the presented models and it could therefore be considered that the optimal strategy was chosen.

Corporate image management can be seen as having different phases and several such models have been presented in this study. Ind's (1992) model has been used as a basis in order to apply image management to M&As. All the steps are not greatly affected by image differences, but for example positioning strategies and company identities can be assumed to be substantially different because of them. Furthermore, it should be confirmed that the joining companies' communications affect the corporate image similarly and that their corporate image is (or images are) beneficial to achieving the strategy.

Lastly, issues regarding stakeholders, corporate identity and corporate communications are closely associated with corporate image management and all of them require management in M&As. Stakeholder groups should be assessed by the level of communication effort that will be required in defeating their potential opposition towards the M&A, then corporate identities are to be evaluated, and the nurtured, maintained and eliminated strengths and weaknesses are to be decided. Finally, the joining companies should also aim at effective corporate communications.

References

Abratt, Russell (1989) A New Approach to the Corporate Image Management Process. *Journal of Marketing Management*, Vol. 5, No: 1, 63–76.

Aguilera, Ruth V. – Dencker, John C. (2004) The role of human resource management in cross-border mergers and acquisitions. *International Journal of Resource Management*, Vol. 15, No: 8, 1355–1370.

Ali-Yrkkö, Jyrki (2002) *Mergers and acquisitions – Reasons and results.* ETLA, The research Institute of the Finnish Economy: Helsinki.

Anderson, Helén – Havila, Virpi – Salmi, Asta (2001) Can you buy a business relationship? On the importance of customer and supplier relationships in acquisitions. *Industrial Marketing Management*, Vol. 30, No: 7, 575–586.

Anniversaries <http://www.kipnotes.com/Anniversaries.htm>, retrieved 27.8.2007.

Balmer, John M. T. (1998) Corporate identity and the advent of corporate marketing. *Journal of Marketing Management*, Vol. 14, No: 8, 963–996.

Balmer John M. T. – Dinnie, Keith (1999) Corporate identity and corporate communications: the antidote to merger madness. *Corporate Communications: An International Journal*, Vol. 4, No: 4, 182–192.

Balmer, John M. T. – Gray, Edmund, R. (2000) Corporate identity and corporate communications. *Industrial and Commercial Training* Vol. 32, No: 7, 256–261.

Balmer, John M. T. – Greyser, Stephen A. (2002) Managing the multiple identities of the corporation. *California Management Review*, Vol. 44, No: 3, 72–86.

Balmer, John M. T. – Greyser, Stephen A. (2003) *Revealing the corporation: Perspectives on identity, image, reputation, corporate branding, and corporate-level marketing.* Routledge: London.

Balmer, John M. T. – Wilkinson, A. (1991) Building societies: Change, strategy and corporate identity. *Journal of General Management*, Vol. 17, No: 2, 20–33.

Barich, Howard – Kotler, Philip (1991) A Framework for marketing image management. *Sloan Management Review*, Vol. 32, No: 2, 94–104.

Barkema, Harry G. – Pennings, Johannes M. (1996) Foreign entry, cultural barriers, and learning. *Strategic Management Journal*, Vol. 17, No: 2, 151–166.

Basu, Kunal (2006) Merging brands after mergers. *California Management Review*, Vol. 48, No: 4, 28–40.

Baumann, H.G. (2002). Merger theory, property rights and the pattern of US direct investment in Canada. In: *International Mergers and Acquisitions: A Reader*, ed. by Buckley, Peter J. – Ghauri, Pervez N., 163–179. Thomson: London.

Benady, David (2006). Like oil and water? *Marketing Week*, 23.3.2006, 24–25.

Bernstein, David (1984) *Company Image and Reality: A critique of corporate communications.* Holt, Rinehart and Winston Ltd: Eastbourne.

Biehal, Gabriel J. – Sheinin, Daniel A. (1998) Managing the brand in a corporate advertising environment: A decision-making framework for brand managers. *Journal of Advertising*, Vol. 27, No: 2, 99–110.

Birkinshaw, Julian (1999) Acquiring intellect: Managing the integration of knowledge-intensive acquisitions. *Business Horizons*, Vol. 42, No: 3, 33–40.

Birkinshaw, Julian – Bresman, Henrik – Håkanson, Lars (2000) Managing the post-acquisition integration process: how the human integration and task integration process interact to foster value creation. *Journal of Management Studies*, Vol. 37, No: 3, 395–425.

Bleeke, Joel – Isono, James – Ernst, David – Weinberg, Douglas (1990) Succeeding at cross-border M&A. *The McKinsey Quarterly*, No: 3, 46–55.

Body Shop agrees L'Oreal takeover. BBC News 17.3.2006. <http://news.bbc.co.uk/1/hi/ business/4815776.stm>, retrieved 29.8.2007.

Body Shop: Aiming to satisfy a worldwide appetite for natural cosmetics (2006). *Market Watch: Global Round-up*, Vol. 5, Issue: 11, 84.

Body Shop chief steps down. BBC News, 12.2.2002. <http://news.bbc.co.uk/1/hi/ business/1815591.stm>, retrieved 28.8.2007.

Body Shop in takeover talks. BBC News 7.6.2001. <http://news.bbc.co.uk/1/hi/ business/1374801.stm>, retrieved 28.8.2007.

Body Shop L'Oréal deal gets European approval (2006) *Soap, Perfumery & Cosmetics*, Vol. 79, Issue: 6, 3.

Booth, Robert (2006) Activists call Body Shop boycott. *Guardian unlimited* 17.3.2006.

Boucher, W. I. (1980) *The process of conglomerate merger.* Bureau of Competition, Federal Trade Commission: Washington, DC.

Brown, Tom J. – Dacin, Peter A. – Pratt, Michael G. – Whetten, David A. (2006) Identity, intended image, construed image, and reputation: An interdisciplinary framework and suggested terminology. *Journal of the Academy of Marketing Science*, Vol. 34, No: 2, 99–106.

Bromley, Dennis B. (2001) Relationships between personal and corporate reputation. *European Journal of Marketing,* Vol. 35, No: 3/4, 316–334.

Buckley, Sophy (2006) French attracted by fair trade retailer's make-up. *Financial Times*, 24.2.2006, 8.

Buckley, Sophy – Jones, Adam (2006) L'Oreal weighs cash bid for Body Shop. *Financial Times* 24.2.2006, 19.

Butler, John – Ferris, Gerald – Napier, Nancy (1991) *Strategy and human resource management.* South-Western publishing: Cincinnati, OH.

Capron, Laurence (1999) The long-term performance of horizontal acquisitions. *Strategic Management Journal*, Vol. 20, No: 11, 987–1018.

Chajet, Clive (1991) *Image by design.* Addison-Wesley: Reading, MA.

Christensen, Lars Thøger – Askegaard, Søren (1999) Corporate identity and corporate image revisited: a semiotic perspective. *European Journal of Marketing*, Vol. 35, No: 3/4, 292–315.

Corporate Critic Companies <http://www.corporatecritic.org/companies.aspx>, retrieved 29.8.2007.

Costello, Brid (2006) Body Shop Net Gains 1% in 2005. *Women's Wear Daily* 8.5.2006, Vol. 191, Issue: 98, 18.

Costello, Brid – Groves, Ellen (2006) L'Oreal plans to snatch The Body Shop. *Women's Wear Daily* 20.3.2006, Vol. 191, Issue: 59, 2.

Cowell, Alan (2001) Body Shop is in talks on sale to Mexican company. *The New York Times* 8.6.2001.

Croft, Martin (2002) Nestlé's new milk run reignites old debate. *Marketing Week* 27.6.2002, Vol. 25 Issue: 26, 20.

Dalton John – Croft, Susan (2003) *A specially commissioned report: Managing corporate reputation.* Thorogood, London.

Davies, Gary (2003) *Corporate reputation and competitiveness.* Routledge: London.

Dowling, Grahame R. (1986) Managing you corporate images. *Industrial Marketing Management*, Vol. 15, 109–115.

Dowling, Grahame R. (1993) Developing your company image into a corporate asset. *Long Range Planning*, Vol. 26, No: 2, 101–109.

Edmondson, Gail – Neuborne, Ellen – Kazmin, Amy Louise – Thornton, Emily – Nickel, Karen (1999) L'Oreal: The beauty of global branding. Business Week Online 28.6.1999, <http://www.businessweek.com/1999/99_26/b3635016. htm>, retrieved 21.10.2007.

Emory, C. William (1985) *Business research methods*. Irwin: Homewood, IL.

Erkkilä, Kaija Katariina (2001) *Haltuunoton ja yhdistämisen haasteet: integraatio yrityskaupassa.* WSOY: Helsinki.

Erramilli, Krishna M. – Agarwal, Sanjeev – Kim, Seong-Soo (1997) Are firm-specific advantages location-specific too? *Journal of International Business Studies.* Vol. 28, Issue: 4, 735–757.

Excite careers – L'Oreal. <http://www1.excite.com/home/careers/company_profile/0,15623,119,00.html>, retrieved 27.8.2007.

Farquharson, Matt (2006) Liaison dangereuse. *Human Resources*. London: May 2006, 21–22.

Firth, Michael (1990) Auditor reputation: The impact of critical reports issued by government inspectors. *RAND Journal of Economics*, Vol. 21, Issue: 3, 374–387.

First half 2007 sales. *L'Oréal press release* 12.7.2007. <http://www.loreal.com/_en/_ww/index.aspx>, retrieved 27.8.2007.

Fombrun, Charles J. (1996) *Reputation – Realizing value from the corporate image.* Harvard Business School Press: Boston, MA.

Garnier <http://www.prodimarques.com/sagas_marques/garnier/garnier.php>, retrieved 27.8.2007.

Garnier, Adecco fined for racism. BBC News 6.7.2007. <http://news.bbc.co.uk/2/hi/europe/6279418.stm>, retrieved 24.11.2007.

Gilkey, Roderick (1991) The psychodynamics of upheaval: intervening in merger and acquisition transitions. In: *Organizations on the Couch: Clinical Perspectives on Organizational Behaviour and Change*, ed. by: Kets de Vries, Manfred , 331–360. Jossey-Bass: San Francisco, CA.

Grant, Robert M. (1995) *Contemporary Strategy Analysis*, 2nd edition. Basil Blackwell: Oxford.

Gray, James G. Jr. (1986) *Managing the Corporate Image*. Quorum Books: Westport Connecticut.

Gray, Edmund R. – Smeltzer, Larry R. (1985) SMR Forum: Corporate Image – An integral part of strategy. *Sloan Management Review*, Vol. 26 No: 4, 73–78.

Gray, Edmund R. – Balmer, John M. T. (1998) Managing corporate image and corporate reputation. *Long Range Planning*, Vol. 31, No. 5: 695–702.

Green, Milford B. (1990) *Mergers and acquisitions – Geographical and spatial perspectives.* Routledge: London.

Greyser Stephen A. (1999) Advancing and enhancing corporate reputation. *Corporate communications: An international journal.* Vol. 4, No: 4, 177–181.

Harma, Olli (2006) L'Oreal miettii Body Shopin ostoa. *Markkinointi&Mainonta* 24.2.2006.

Harrison, Joan (2006) Mission-oriented firms change hands. *Mergers & Acquisitions: The dealermaker's Journal*, Vol. 41, Issue: 5, 30.

Haspeslagh, Philippe – Jemison, David B. (1991) *Managing acquisitions: Creating value through corporate renewal.* The Free Press: New York, NY.

Henry, David (2002) Mergers: Why most big deals don't pay off. *Business Week* 14.10.2002, 60–70.

Hirsjärvi, Sirkka – Remes, Pirkko – Sajavaara, Paula (2000) *Tutki ja kirjoita*. 6th–7th edition. Tammi: Helsinki.

Hofstede, Geert (1980) *Culture's consequences: International differences in work-related values*. Sage Publications: Beverly Hills, CA.

Hopkins, Donald H. (2002) Cross-border mergers and acquisitions: global and regional perspectives. In: *International Mergers and Acquisitions: A Reader*, ed. by Buckley, Peter J. – Ghauri, Pervez N., 86–115. Thomson: London.

Hubbard, Nancy – Purcell, John (2001) Managing employee expectations during acquisitions. *Human Resource Management Journal*, Vol. 11, No: 2, 17–33.

Hunt, J.W. – Lees, S. – Grumbar, J. – Vivian, P. (1987) *Acquisitions – The human factor*. London Business School/Egon Zehnder International: London.

Ind, Nicholas (1992) *The corporate image – Strategies for effective identity programmes.* Kogan Page: London.

Jaakola, Laura (2007) Matkustajakato Tallink Siljalla. *Taloussanomat* 19.12.2007. <http://www.taloussanomat.fi/liikenne-ja-kuljetus/2007/12/19/ Matkustajakato+Tallink+Siljalla/ 200732271/382>, retrieved 22.2.2008.

Jackson, Peter (1994) *Desk research*. Kogan Page: London.

Jagersma, Pieter Klaas (2000) *Global strategy.* Inspiration Press: Brussels.

Jagersma, Pieter Klaas (2005) Cross-border acquisitions of European multinationals. *Journal of General Management*, Vol. 30, No: 5, 13–34.

James, Jennie (2004) Lindsay Owen-Jones: Dreams of Beauty. *Time*, 26.4.2004, 74–75.

Jamieson, Alastair (2006) Body Shop founder Roddick accused of a sell-out after £650 cosmetics deal. *The Scotsman* 18.3.2006.

Janesick, Valerie J. (1994) The dance of qualitative research design: Metaphor, methodolatry, and meaning. In: *Handbook of qualitative research*, ed. by Norman, Denzin K. – Lincoln, Yvonna S., 209–219. Sage Publications: Thousand Oaks, CA.

Javidan, Mansour – Pablo, Amy – Singh, Harbir – Hitt, Michael – Jemison, David (2004) Where We've Been and Where We're Going in Mergers and Acquisitions. In: *Mergers and acquisitions – Creating integrative knowledge*, ed. by Pablo, Amy – Javidan, Mansour, 245–261. Blackwell Publishing Ltd: Malden, MA.

Jones, Adam (2006) L'Oréal sold on expanding Body Shop. *Financial Times* 3.10.2006, 26.

Jones, Adam (2007) Trailblazer for the disadvantaged. *Financial Times* 12.9.2007.

Kapner, Suzanne (2001) Sale talks end. *The New York Times* 27.6.2001.

Keller, Kevin Lane (2003) *Strategic brand management: building, measuring and managing brand equity.* Prentice Hall: Upper Saddle River, NJ.

Kennedy, Sherril H. (1977) Nurturing corporate images. Total communication or ego trip? *European Journal of Marketing*, Vol. 11 No: 1, 120–164.

Kent, Raymond A. (1993) *Marketing research in action.* Routledge: London.

Kitching, John (1974) Winning and losing with European acquisitions. *Harvard Business Review*, Vol. 52, Issue: 2, 124–136.

Koskinen, Petri (2007) Yrityskaupat tärskähtivät varustajiin. *Talouselämä* 31.8.2007. <http://www.talouselama.fi/docview.do?f_id=1215222>, retrieved 22.2.2008.

Kotler, Phillip (2003) *Marketing Management*, 11th edition. Prentice-Hall: Upper Saddle River, NJ.

Larsson, Rikard – Finkelstein, Sydney (1999) Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: a case study of synergy realization. *Organization Science*, Vol. 10, Issue: 1, 1–26.

Lees, Stan (2003) *Global acquisitions – Strategic integration and the human factor.* Palgrave Macmillan: New York, NY.

Letter of recommendation from the chairman of The Body Shop (2006). In: *Recommended cash offer by JPMorgan Cazenove Limited on behalf of L'Oréal for The Body Shop International PLC*, 7–10. <http://www.loreal-finance.com/bali/pdf/ offer_document.pdf>, retrieved 30.8.2007.

Li, Jiatao – Guisinger, Stephen (1991) Comparative business failures of foreign-controlled firms in the United States. *Journal of International Business Studies*, Vol. 22, Issue: 2, 209–224.

Lincoln, Yvonna – Guba, Egon (1999) Establishing trustworthiness. In: *Qualitative Research*, ed. by Bryman, Alan – Burgess, Robert, 397–444. Sage Publications: London.

L'Oréal 2006_annual report (2006), <http://www.loreal-finance.com/v9/us/contenu/rapport/rapport2006/2006_annual_report_part1.pdf>, retrieved 27.8.2007.

L'Oréal 2006 Sustainable development report, <http://www.loreal.com/_en/_ww/group_new/pdf/LOREAL_RDD_2006_VGB_22_06_07.pdf>, retrieved 30.8.2007.

L'Oréal annonce une offre publique d'achat recommandée de 652 millions de livres en numéraire pour acquérir The Body Shop International plc <http://www.companynewsgroup.com/communique.asp?co_id=108197>, retrieved 29.8.2007.

L'Oréal – Our Brands. <http://www.loreal.com/_en/_ww/index.aspx>, retrieved 27.8.2007.

L'Oréal – Our company – Company overview – Facts and figures – Group Profile. <http://www.loreal.com/_en/_ww/index.aspx>, retrieved 27.8.2007.

L'Oréal – Our company – Company overview – Facts and figures – Human Resources. <http://www.loreal. com/_en/_ww/index.aspx>, retrieved 27.8.2007.

L'Oréal – Our company – Company overview – Facts and figures – Research and Development. <http://www.loreal.com/_en/_ww/index.aspx>, retrieved 27.8.2007.

L'Oréal – Our company – Company overview – Values. <http://www.loreal.com/_en/_ww/ index.aspx>, retrieved 27.8.2007.

L'Oréal discloses acquisition figures in aggregate. (2007). *Accountancy*, Vol.140, Issue: 1367, 92.

L'Oréal – Diversity is a priority – Our teams – Our people. <http://www.loreal.com/_en/ _ww/index.aspx>, retrieved 27.8.2007.

L'Oréal e-Strat 2008 <http://www.e-strat.loreal.com/_int/_en/partners_loreal.aspx>, retrieved 22.10.2007.

L'Oréal half year report 2007. <http://www.loreal-finance.com/_docs/fichiers_contenu/0000000286/LOreal_RapportSemestriel_30juin2007_VA_OnLine.pdf>, retrieved 22.10.2007.

L'Oréal Production – History <http://www.loreal.co.uk/_en/_gb/group/history/history.aspx?sr=2>, retrieved 27.8.2007.

L'Oreal SA: EU Clears Body Shop Deal; No Antitrust Issues Found. *Wall Street Journal* 2.6.2006.

Lukka, Kari (1985) *Budjettiharhan luominen organisaatiossa: teoreettinen viitekehys ja empiirinen koettelu: theoretical framework and empirical evidence.* Turun Kauppakorkeakoulu: Turku.

Margulies, Walter P. (1977) Make the most of your corporate identity. *Harvard Business Review*, Vol. 55, 66–74.

Marks, Mitchell – Mirvis, Philip (1982) Merging human resources: a review of current research. *Mergers and acquisitions*, Vol. 17 No: 2, 38–44.

Marks, Mitchell – Mirvis, Philip (2001) Making mergers and acquisitions work: Strategic and psychological preparation. *Academy of Management Executive*, Vol. 15 No: 2, 80–92.

Markwick, Nigel – Fill, Chris (1997) Toward a framework for managing corporate identity. *European Journal of Marketing* Vol. 31, No: 5/6, 396–409.

Melewar, T. C. – Harrold, John (2000) The role of corporate identity in merger and acquisition activity. *Journal of General Management*, Vol. 26, No: 2, 17–31.

Milmo, Cahal (2001) Body shop for £175m? That's a cheek, says Anita Roddick. *The Independent* 27.3.2001.

Milmo, Cahal (2006) UK: Body Shop's Popularity Plunges after L'Oréal Sale. *The Independent* 10.4.2006.

Montague-Jones, Guy (2007) Nestle undecided about future with L'Oreal. *Cosmetics design.com* 21.8.2007. <http://www.cosmeticsdesign.com/news/ng.asp?n=79140-l-oreal-nestle-results-stake>, retrieved 27.8.2007.

More than a third of all consumers boycott at least one brand (2005). GMI Poll 29.8.2005. <http://www.gmi-mr.com/gmipoll/release.php?p=20050829>, retrieved 29.8.2007

New patterns of industrial globalisation. Cross-border mergers and acquisitions and strategic alliances (2001). OECD; Industry, Services & trade, Vol. 2001, No: 29. OECD: Paris.

Nguyen, Maria (2006) Consumers boycott Body Shop over "betrayal". *B&T Weekly*, 24.3.2006, Vol. 56, Issue: 2557, 9.

Nitch, Detlev – Beamish, Paul – Makino, Shige (1996) Entry mode and performance of Japanese FDI in Western Europe. *Management International Review*, Vol. 36, No: 1, 27–43.

OTC: The greenest pharmacy revealed! (2007) *Chemist & Druggist* 16.6.2007, 8

Pablo, Amy L. (1994) Determinants of acquisition integration level: A decision-making perspective. *Academy of Management Journal*, Vol. 37, Issue: 4, 803–836.

Pan, Yigang – Tse, David K. (2000) The hierarchical model of market entry modes. *Journal of International Business Studies,* Vol. 31, No: 4, 535–554.

Patton, Michael Q. (1990) *Qualitative evaluation and research methods,* 2nd edition. Sage Publications: London.

Q4 2006 L'Oreal SA earnings presentation – Final (2007) *Fair Disclosure Wire*, 15.2.2007.

Quah, Penelope – Young, Stephen (2005) Post-acquisition management: A phases approach for cross-border M&As. *European Management Journal*, Vol. 23, No: 1, 65–75.

Resultat : qui n'a jamais été patron de...? <http://www.journaldunet.com/management/questionnaire/resultat/3/2261/1/d/f>, retrieved

Ritson, Mark (2006) Why being contradictory makes sense. *Marketing*, 22.3.2006, 19.

Roddick, Anita (2002) Dispatch: Greenpeace, The Body Shop and the Esso Boycott, 9.1.2002. <http://www.anitaroddick.com/readmore.php?sid=23>, retrieved 22.8.2007.

Roddick, Anita (2003) Dispatch: Because You're Not Worth It, 30.4.2003. <http://www.anitaroddick.com/readmore.php?sid=120&PHPSESSID=0d816821f4fe392f11e025d75e0d5923>, retrieved 29.8.2007.

Roddick: Anti-wrinkle creams 'don't work'. BBC News 19.10.2000. <http://news.bbc.co.uk/1/hi/health/979483.stm>, retrieved 29.8.2007.

Rumelt, Richard (1974) *Strategy, structure and economic performance.* Harvard University Press: Cambridge, MA.

Scholes, Eileen – Clutterbuck, David (1998) Communication with stakeholders: An integrated approach. *Long Range Planning*, Vol. 31, No: 2, 227–238.

Schumann, David W. – Hathcote, Jan M. – West, Susan (1991) Corporate advertising in America: A review of published studies on use, measurement, and effectiveness. *Journal of Advertising*, Vol. 20, No: 3, 35–56.

Schweiger, David M. – Ivancevich, John M. – Power, Frank R. (1987) Strategies for managing human resources during mergers and acquisitions. *Human Resource Planning*, Vol. 10, No: 1, 127–138.

Seth, Anju (1990) Value creation in acquisitions: A re-examination of performance issues. *Strategic Management Journal*, Vol. 11, No: 2, 99–115.

Seth, Anju – Song, Kean – Pettit, Richardson (2000) Synergy, Managerialism or Hubris? An Empirical Examination of Motives for Foreign Acquisitions of U.S. Firms. *Journal of International Business Studies*, Vol. 31, No: 3, 387–405.

Sherman, Andrew J. – Hart, Milledge A. (2005) *Mergers and acquisitions from A to Z.* 2nd edition. AMACOM Books: New York, NY.

Shimizu, Katsuhiko – Hitt, Michael A. – Vaidyanath, Deepa – Pisano, Vincenzo (2004) Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management*, Vol. 10, Issue: 3, 307–353.

Simonin, Bernard L. – Ruth, Julie A. (1998) Is a company known by the company it keeps? Assessing the spillover effects on brand alliances on consumer brand attitudes. *Journal of Marketing Research,* Vol. 35, No: 1, 30–42.

Smith, Stuart (2006) The Body Shop lure is more than skin deep. *Marketing Week* 23.3.2006, Vol. 29 Issue: 12, 21.

Spector, Aaron J. (1961) Basic dimensions of the corporate image. *Journal of Marketing*, Vol. 25, No: 6, 47–51.

Stake, Robert E. (1994) Case studies. In: *Handbook of qualitative research*, ed. by Norman, Denzin K. – Lincoln, Yvonna S., 236–247. Sage Publications: Thousand Oaks, CA.

Stecklow, Steve (2001) As Body Shop calls off talks with Omnilife, its stock sinks. *Wall Street Journal,* 27.6.2001, A8.

Strong growth in 2006 annual results, L'Oréal press release 15.2.2007. <http://www.loreal.com/_en/_ww/index.aspx>, retrieved 27.8.2007.

Ströh, Ursula – Jaatinen, Miia (2001) New approaches to communication management for transformation and change in organisations. *Journal of Communication Management*, Vol. 6, No: 2, 148–165.

Stuart, James (2006) Has The Body Shop sold all it believed in down the Seine? *Marketing and Advertising*; Hong Kong. 21.4.2006, 12.

Taponen, Ahti (1970) *Yrityskuva.* Sininen Kirja Oy: Helsinki.

The body beautiful (2006). *Economist*, 25.3.2006, 68.

The Body Shop – About us – Our Company, <http://www.thebodyshopinternational.com/About+Us/Our+Company/Our+company.htm>, retrieved 22.8.2007.

The Body Shop – About us – Our History, <http://www.thebodyshopinternational.com/About+Us/Our+History>, retrieved 22.8.2007.

The Body Shop – About us – Our Passion, <http://www.thebodyshopinternational.com/About+Us/Our+Passion/>, retrieved 22.8.2007.

The Body Shop International PLC Annual Report and Accounts 2006. <http://www.thebodyshopinternational.com/NR/rdonlyres/A675B0BD-0195-4FF2-BD6C-1B5C351108ED/0/CLIENT81152203562022_lg2006AnnualReport.pdf>, retrieved 20.10.2007.

The Body Shop International PLC – Board changes and delisting. 12.6.2006. <http://www.thebodyshopinternational.com/NR/rdonlyres/3453E918-ED01-4222-9CA3-C7B7726DE596/0/CLIENT81151656945446_lgTheBodyShopDelistingandBoardChanges.pdf>, retrieved 26.8.2007.

The Body Shop International PLC: Information from Answers.com <http://www.answers.com/topic/the-body-shop-international-plc?cat=biz-fin>, retrieved 23.8.2007.

The Body Shop – Store Locator. <http://www.thebodyshopinternational.com/Store+Locator/>, retrieved 22.10.2007.

The Body Shop Values Report. <http://valuesreport.thebodyshop.net>, retrieved 22.10.2007.

The New York Times Job Market – Profile L'Oréal. <http://jobs.nytimes.com/texis/company?compid=43133b7b57cd80>, retrieved 27.8.2007.

Trautwein, Friedrich (1990) Merger motives and merger prescriptions. *Strategic Management Journal*, Vol. 11, No: 2, 283–295.

Tynjälä, Päivi (1991) Kvalitatiisten tutkimusmenetelmien luotettavuudesta. *Kasvatus*, Vol. 22, No: 5–6, 387–398.

Van Heerden, Cornelius H. – Puth, Gustav (1995) Factors that determine the corporate image of South African banking institutions: An exploratory investigation. *The International Journal of Bank Marketing,* Vol.13, Issue: 3, 12–17.

Van Riel, Cees B. M. (1995) Principles of corporate communication. Prentice Hall: Hertfordshire.

Van Riel, Cees B. M. – Balmer, John M. T. (1997) Corporate identity: the concept, its measurement and management. *European Journal of Marketing*, Vol. 31, Issue: 5/6, 340–355.

Vanhala, Sinikka (1985) *Kvalitatiivisen tutkimuksen perusteet*. Helsingin Kauppakorkeakoulu: Helsinki.

Varadarajan, Rajan – DeFanti, Mark P. – Busch, Paul S. (2006) Brand portfolio, corporate image, and reputation: Managing brand deletions. *Journal of Academy of Marketing Science*, Vol. 34, No: 2, 195–205.

Wallace, Charles P. (1996) Can The Body Shop shape up? *Fortune* 15.4.1996.

Walsh, Fiona – Finch, Julia (2006) £600m – because it's worth it. *The Guardian,* 24.2.2006.

Weber, Yaakov – Shenkar, Oded – Rahev, Adi (1996) National and corporate cultural fit in mergers/acquisitions: An exploratory study. *Management Science*, Vol. 42, No: 8, 1215–1227.

Weil, Jennifer (2007) From where the analysts sit; Major acquisitions will be the key to L'Oral's growth. *WWD International Beauty Report*, New York, 18.5.2007. Vol.193, Issue: 106, 37.

Welcome to the L'OREAL Research website – Research. <http://www.loreal.co.uk/_en/_gb/research/homeres.aspx>, retrieved 27.8.2007.

Weston, Fred J. – Weaver, Samuel C. (2001) *Mergers and acquisitions.* McGraw-Hill: New York, NY.

Why L'Oreal's Jean-Paul Agon believes he is on the winning team (2005) Published 30.3.2005 in Knowledge@Wharton. <http://knowledge.wharton.upenn.edu/article.cfm?articleid=1127&specialid=29>, retrieved 22.10.2007.

World Investment Prospects Survey 2007–2009. (2007) UNCTAD: New York, NY.

World Investment Report 2000 – Cross-border mergers and acquisitions and development. (2000) UNCTAD: New York, NY.

World Investment Report 2006 – FDI from Developing and Transition Economies: Implications for Development. (2006) UNCTAD: New York, NY.

World Investment Report 2007 – Transnational corporatations, extractive industries and development. (2007) UNCTAD: New York, NY.

Yin, Robert K. (1988) *Case study research: Design and methods.* Sage Publications: Beverly Hills.

Zaheer, Srilata – Schomaker, Margaret – Genc, Mehmet (2003) Identity versus culture in mergers of equals. *European Management Journal*, Vol. 21, Issue: 2, 185–191.