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Post Merger Integration with Different Quality Standards

Incorporation Analysis of an E-Bike Division
into an Automotive Supplier

Master-Thesis

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1. Introduction

“Coming together is a beginning; keeping together is progress; working together is success.”

Henry Ford (1863-1947)

In this day and age the globalization permanently sets new items on the agenda of single firms as well as enterprises, such items are acquisition, merger or fusion of or with other corporations with partly new business segments to survive in the global competition and to extend their current market position.

In general the integration of two corporations is supposed to induce synergistic effects, i.e. the future overall performance is expected to be higher than the combined previous single performances. [48] Synergies can have a positive influence for the production, e.g. with lower fixed costs or for sales and distribution, which can use customer service points and distribution channels together. However there possibly are also some negative synergistic effects, such as production lines or single machine not working at full capacity or new R&D facilities get too expand and have an unclear structure. As the responsible department manager may not be aware which team is working on which project part, so parts of the project might be given to more than one team. [35]

Besides the mentioned positive synergistic effects, the management often expects an increase in sales and/or a reduction of costs. But the management could also underestimate the timeline, implementation problems, estimated costs etc. of the integration of the two corporations which can have a negative influence of the desired synergistic effects. [37] There are further reasons that affect the merger and integration of corporations, these will be dealt with in Chapter 2.1.

Another important aspect is the existence of different quality standards in the merging¹ corporations. On the one hand enterprises use the circumstances that they gained different seals of quality for marketing reasons, e.g. it may have been awarded by the Deutsche Landwirtschafts-Gesellschaft² (DLG) or the Institute Fresenius or it could have gained the so called Bio seal. On the other hand the corporations' customers demand specific certificates that the enterprises can get by

¹ Within Chapter 2.1 the term “merger” is defined and explained which kinds of mergers are existing.

² Own translation: German Agriculture Association

fulfilling the requirements of specific norms. The most demanded and common norm within the production sector in Germany and also worldwide is the DIN EN ISO 9001. [41] Furthermore, the ISO/TS 16949 is an important norm for the automotive industry within the production sector, further details on these norms are given in the chapters 2.3.1 and 2.3.2. Within the named chapters there is also focused on the possible level quality standards could have, how the corresponding quality management systems have to be and why there are differences between these two and further norms.

As the economic literature often focuses on the economic and strategic advantages and positive synergistic effects a merger of two corporation has it also is of interest to consider the effects on the merging corporations' quality standard' and quality managements. Since there are corporations merging by having different quality standards and quality management systems there should be effects to these. How the different quality management systems react to each other through a merger and especially how they can profit by each other should be examined in this thesis. It is assumed that a corporation without any certified quality standard, but wants to implement a quality management system, can have the most advantage for this through a merger with an already certified corporation.

This Master Thesis is written within the quality management headquarters of the ContiTech Power Transmission Group (PTG) in Hanover-Vahrenwald, which is in charge of nine other group's plants around the world regarding and improving the quality management system of the ISO/TS 16949 norm. The headquarter is also responsible for implementing a quality management system of the ISO 9001 norm at the e-bike transmission specialist called Benchmark Drives which shall be integrated into the corporation's structure after a merger last year.

Within Chapter 2 fundamentals and terms are defined to set a basis for the usage of this terms within this thesis. Kinds of mergers and corporations are classified and for the terms norm, standard, quality and quality standard their scopes are determined. Also an overview about different norms is given and the industrial, automotive and bicycle sector are considered in detail. Especially the ISO 9001 norm is of interest, when it comes to implement a new quality management system or examine an already existing one since it is the most common norm worldwide.

Therefore, in Chapter 3 and its sub-chapters it is dealt with a guidance of an international standardization organization for implementing a quality management system according to the ISO 9001 at micro entities. Simultaneously it is assumed that the organization merged with a large-scale organization which has a certification to the ISO/TS 16949 norm which is most common in the automotive sector. Through this merger the micro entity possibly could get advantages for its implementation process by being supported from the large-scale corporation. These assumptions are done since in the end of this thesis the findings of this main chapter should be transferred to a practical quality management system project and it should be examined how the theoretical findings work within a practical situation.

This practical implementation project is considered in chapter 4 and especially in its sub-chapter 4.1.4 the initial situation for the implementation process is examined. Sub-chapter 4.2 then deals with the definition of the necessary actions and a description of the experiences made during the execution of the theoretical findings. As the implementation process is still ongoing the necessary future tasks and procedures and their responsible persons are defined to give a forecast on the further processing.

In the end of this thesis its limitations are considered in Chapter 5 since it is not possible to regard all potential combinations of merger situations worldwide in one thesis. The plurality of possible combinations for corporation's size, kind of merger, norm the corporations are certified to and country-specific circumstances is enormous and should be examined in different theses. This is also a recommendation for further research on the basis of this thesis as well as the attitude and quality understanding of the different corporations' employees could affect the success of a merger.

This thesis is concluded in Chapter 6 by a short summary of the theoretical findings and the experiences of the practical implementation project. While in Chapter 7 finally a critical reflection is done to discuss if an international standard always offers the most success and effectiveness to micro corporations.

6. Conclusion

A conclusion of this thesis considers on the one hand the theoretical part of using an official ISO guidance to implement a QMS at a micro entity after a merger with a large-scale corporation and on the other hand the effectiveness and implementation procedure of the project. Additionally in this chapter it is dealt with a conclusion on how the theoretical implementation process and the practical realization correspond.

In general it can be said that implementing a quality management system should strengthen an organization's product quality by minimizing problems and faults in all organization's activities through employees' quality awareness and preventive measures. But implementing a QMS is not as easy as it might seem to be by reading the ISO guidance and further literature, as is shown in the second part of this chapter. An ISO technical committee compiled the ISO 9001 which is the most common quality management system norm organizations of all economic sectors worldwide are certificated to, as shown in Chapter 2.3. For implementing this norm at micro entities and small companies the ISO also published a guidance to help the often inexperienced responsible management with this task. This thesis examined the case that a micro entity without any certification merges with a large-scale corporation which is certified to the ISO/TS 16949. Besides the economic and commercial reasons and advantages the responsible management of the micro entity might have decided to merge to gain further advantages. Amongst others these advantages are caused by the implementation of a QMS and the support of the large-scale corporation's employees. Because the QM employees' knowledge and the experience of the whole large-scale corporation's staff proceeding their activities to manufacture salable products under the influence of QMS requirements could be helpful for the micro entity.

The QMS implementation process at the micro entity can be done according to the ISO guidance and can be supported by employees and resources of the large-scale corporation. A way to implement the QMS according to the ISO 9001 at the micro entity, to cooperate with the merged partner and the possible advantages are shown in detail in Chapter 3 and its sub-chapters. In summary it can be said that cooperating as much as possible by appointing a QMS implementation manager who is from the large-scale corporation's quality management as well as sharing knowledge and experience with each other could prove to be the most successful and effective way

for the implementation. Further advantages are the possible adaption of the micro entity to templates for documentation as well as activities and process structures which are successfully used at the large-scale corporation. Also future sharing of processes or departments is a possible solution since the purchasing might be able to do business also for the micro entity or the documentation system might be expendable as well. But also some risks or problems can occur since it is not sure that the effectiveness of the employees' daily work at the micro entity is reduced by the requirements of the norm or the regulations and decision process during the cooperation with the merger partner. The possibly negative effects to the micro entity's effectiveness are reflected in Chapter 7 since a norm might not in every case be the best solution for implementing a standard.

Especially when it comes to the practical implementation project it is not explicitly assessable if the implementation of a QMS at the e-bike specialist Benchmark Drives and the strong connection of the activities with the automotive supplier ContiTech Antriebssysteme effects BMD's daily work and decision process effectiveness in a positive or negative manner. Within Chapter 4.1.4 many problems regarding quality aspects, sustainable documentation, fulfillment of quality norm's requirements and employee's safety are shown. In summary there are many circumstances after the merger which seem problematic if they are considered from the qualitative and norm regarding point of view, but all in all also before the merger BMD did sales business and developed qualitative acceptable products in a well-functioning team. Since the responsible management at CT AS decided to increase the quality level at BMD, implement a QMS and get a certification to the norm ISO 9001 after the merger, actions must be taken to fulfill this requirements. So setting the QM headquarters in Hanover in charge for the QMS implementation process seems like the first step to a successful procedure.

The implementation process is done alongside the ISO guidance, but not exactly to a hair one step after the other since parallel to the QMS implementation process the integration process with the reorganization of activities and processes as well as hiring new premises happens. Due to these parallel procedures and insufficient communication between the implementation team and the employees of BMD as well as delays and shortage of space in the warehouse at the CT AS plant in Hanover many problems occurred which had to be handled. All these aspects are shown in Chapter 4.2 and suggestions are made to reach the final target of successfully

implementing a QMS at BMD. It can be said that many suggestions from Chapter 3 of taking advantage of the resources, knowledge and templates of the QMS of the CT AS are followed, but not all of them lead to the expected results. In summary approximately half the way of the QMS set-up is done and for the future necessary steps are defined and already ongoing. After all measures are installed, the testing phase of the QMS begins, which is then followed by further improvements and may be concluded by a successful certification to the ISO 9001.

All in all the ISO guidance and the cooperation suggestions for a successful QMS implementation in the theoretical part of this thesis are not exactly to a hair transferable to a practical QMS implementation process during the companies' integration process after a merger. Since this practical situation, which is also considered in the theoretical part of this thesis, limits the findings of this thesis, there might be further limitations which are examined more detailed in Chapter 5. How the guidance and suggestions transferability to a situation without a parallel integration process might be is hard to estimate due to their complexity, but this estimation might be of interest for further research. Other constellations than the considered one of a micro entity and a large-scale corporation might also be of interest since a merger and integration process of two approximately equal sized companies could deal with completely other problems and cooperation advantages. These and further suggestions for research basing on this thesis are given as a forecast in Chapter 7. Concluding it is to say that besides all research and available guidance, suggestions and preparation, every organization faces others problems and circumstances while implementing a quality management system according to any norm.