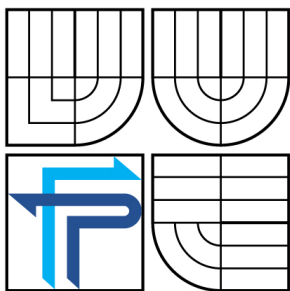


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STRATEGIC ACQUISITION AND ITS IMPACT ON THE ACQUIRED COMPANY

STRATEGICKÁ AKVIZICE A JEJÍ DOPAD NA SPOLEČNOST

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Annotation:

The presented master's thesis deals with evaluation of process of strategic acquisition of the Czech water company VHOS, a.s. by large multinational enterprise Energie AG Wasser within its strategic penetration of the markets of Central and Eastern Europe. The thesis analyses the acquisition aim and its process including due diligence and define the conditions of acquisition realisation. The work outcomes are identification of synergetic effects expected from acquisition realisation, contributions for both acquiring and acquired subjects and definition of acquisition's impact on acquired company's functioning. Necessary changes in key success areas of the company will be defined and suggested as well as measures and new activities leading to economic, technical and personal savings and smooth implementations of change.

Key words:

Strategic Management, Acquisition, Change management, Concern, Organizational Structure, Change Implementation, Impact.

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Declaration of honour

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In Moravská Třebová, 30th of August 2009

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Introduction

The water management sector in the Czech Republic faces an important challenge to modernize water and sewerage systems ensuring that these comply with European standards and norms. Nowadays, the percentage of households that are connected to water supply and sewerage systems is above the average of the EU member countries. The quality of the drinking water supplied ranks among the best in Europe. These are some reasons that attract multinational companies to penetrate the Czech water industry. Because foreign investors can bring capital required for industry development, Czech water management companies often become strategic targets of large multinational corporations for mergers and acquisition.

An acquisition is a strategy through which one firm buys a controlling, or hundred percent, interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. Any acquisition cannot do without reorganization. Double counting must be reduced and coordinate positions must be created. During acquisition with the purpose of company enlargement, many structural consequences are to be expected.

One of the basic tasks the company is facing is the ability to adapt to the changing conditions. The aim of the intended change is to keep the organization viable, competitive and efficient.

The main topic of the presented master thesis is Strategic acquisition and its impact on the acquired company. The paper contains strategic analysis of the acquired company and evaluates impacts, contributions and synergic effects of the acquisition for both the acquiring and acquired companies. The outcomes of the work are suggestions of necessary changes and interventions, proposals of measures and new activities and recommendations leading to effective and successful change process.

The analysed acquired Czech company VHOS, a.s. is in domain of production and distribution of drinking water and drainage and treatment of wastewater dominant provider in region of Svitavy. Acquiring company is Energie AG Wasser, multinational holding company for the water business. The company is implementing of the growth strategy in the target markets of Austria, the Czech Republic, southern Germany, and CEE and coordinates the modernization and development of its subsidiaries.

1. PROBLEM DEFINITION, OBJECTIVES, METHODOLOGY

Water management is very specific industry in the Czech Republic. At first sight it seems that water companies have monopolistic position in its region of business and can create its own arbitrary prices. Looking at it from a different angle, production and distribution of drinking water and drainage and treatment of wastewater are strictly regulated by state institutions and legislation. Companies in this domain are responsible to local authorities and municipalities and under permanent politic pressure.

Professional and even general public pay close attention to any changes in water management. Especially acquisitions when large multinational players are entering Czech water market attract attention and increases uncertainty about future water charges among inhabitants of given region.

Acquired company VHOS, a.s., regional water pipes and sewerage operator, runs its business since 1993. During 16 years, company has created its good name, built favourable relations with representatives of the municipalities in region of business activity and always provided services of a good quality.

With the change in controlling shareholders, the company itself is facing many changes and challenges. Besides company's structural and strategic modifications, there are many stakeholders with their own interests and requirements that need to be met and taken into account during change implementation (owners, top management, suppliers and customers, employees, banks, local authorities and public, etc.).

The thesis analyses the acquisition aim and process of acquisition itself. The work outcomes are *identification of synergetic effects* expected from acquisition realisation, *determination of contributions* for both acquiring and acquired subjects and *definition of acquisition's impact* on acquired company's functioning. Necessary changes in key success areas of the company will be defined and suggested as well as measures and new activities leading to economic, technical and personal savings and smooth implementations of change. The aim is to propose solutions that will reduce or eliminate negative impacts of acquisition on company and put the suggestions that will maximise the positive effects of the analysed acquisition. The main intent is to ensure acquired company's subsequent successful functioning.

2. THEORY BACKGROUND, LITERATURE CONSULTATION

2.1 Acquisitions and acquisition strategy

2.1.1 Attraction of acquisition

Acquisitions are used to pursue vertical integration or diversification when a company lacks the distinctive competencies to compete in a new industry and therefore uses its capital to purchase an established company that has those competencies. A company is particularly likely to use acquisitions when it needs to move fast to establish a presence in the industry. Entering a new industry through internal venturing is a relatively slow process; acquisition is much quicker way for a company to establish a significant market presence. A company can purchase a leading company with a strong competitive position in months rather than spend years building up a market leadership position through internal venturing. Thus, when speed is important, acquisition is favoured entry mode (3).

In addition, acquisitions are often perceived as somewhat less risky than internal new ventures primarily because they involve less commercial uncertainty. Because of the risks associated with an internal new venture, it is difficult to predict its future profitability and cash flows. In contrast, when a company makes an acquisition, it is acquiring a company with a reputation whose market share and profitability can be easily evaluated.

Finally, acquisitions are an attractive way to enter an industry that is protected by high barriers to entry. Barriers to entry arise from factors associated with product differentiation (brand loyalty), absolute cost advantages, and economies of scale. When these barriers are substantial, a company may find it very difficult to enter an industry through internal new venturing because it will have to construct large-scale manufacturing facilities and invest in a massive advertising campaign to establish brand loyalty – difficult goals that require large capital expenditures. In contrast, if a company acquires an established company in the industry, it can circumvent most entry barriers because it has acquired a market leader that already has substantial scale economies and brand loyalty. In general, the greater the barriers to entry, the more likely it is that acquisitions will be favoured entry mode (3).

In fact, an acquisition strategy is sometimes used because of the uncertainty in the competitive landscape. A firm may make an acquisition to increase its market power because of a competitive threat, to enter a new market because of the opportunity available in that market, or to spread the risk due to the uncertain environment. In addition, a firm may acquire other companies as an option that allows the firm to shift its core business into different markets as volatility brings undesirable changes to its primary market. Such an option may arise because of industry or regulatory changes (4).

The strategic management process calls for an acquisition strategy to increase a firm's strategic competitiveness as well as its returns to shareholders. Thus, an acquisition strategy should be used only when the acquiring firm will be able to increase its economic value through ownership and the use of an acquired firm's assets (4).

2.1.2 Mergers, acquisitions and takeovers

According to (4) a **merger** is a strategy through which two firms agree to integrate their operations on a relatively coequal basis. There are few true mergers called "mergers of equals", because one party is usually dominant.

An **acquisition** is a strategy through which one firm buys a controlling, or 100 percent, interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio. In this case, the management of the acquired firm reports to the management of the acquiring firm. While most mergers are friendly transactions, acquisitions include unfriendly takeovers.

A **takeover** is a special type of an acquisition strategy wherein the target firm does not solicit the acquiring firm's bid. Often takeover bids spawn bidding wars. The number of unsolicited takeover bids increases during economic downturn and recessions, because the poorly managed firms that are undervalued relative to their assets are more easily identified. Many takeover attempts are not desired by the target firm's management and are referred to as hostile. On a comparative basis, acquisitions are more common than mergers and takeovers.

2.1.3 Types of acquisitions

According to (4) there are different types of acquisitions that firms often use to increase their market power. Acquisitions are divided into horizontal, vertical, and related acquisitions.

Horizontal acquisition - The acquisition of the company in the same industry in which the acquiring company competes referred to as a horizontal acquisition. Horizontal acquisition increases firm's market power by exploiting cost-based and revenue-based synergies. Research suggests that horizontal acquisitions of firms with similar characteristics result in higher performance than when firms with dissimilar characteristics combine their operations. Examples of important similar characteristics include strategy, managerial styles, and resource allocation patterns. Similarities in these characteristics make integration on the two firms proceed more smoothly. Horizontal acquisitions are often most effective when the acquiring firm integrates the acquired firm's assets with its assets, but only after evaluating and divesting excess capacity and assets that do not complement the newly combined firm's core competencies.

Vertical acquisition - Vertical acquisitions are buyouts that involve two companies that are considered to be part of the same industry. However, the acquiring corporation usually focuses on a different aspect of the production process within that industry than the company that is acquired. The end result of a vertical acquisition is a larger unified corporation that has a stronger presence within that industry. The key to understanding the concept of a vertical acquisition is to look upon the process as a means of one company seeking to purchase another company that manufactures products that will enhance the goods provided by the parent. A vertical acquisition can be a positive experience for both the acquired company and the acquiring entity. Often, all facilities that were in operation before the vertical acquisition continue to operate. The combined resources of the companies may also make it possible to expand those operations. At the same time, the combined strength of marketing and sales strategies may result in a stronger presence in the industry that goes beyond the simple unification of assets and current production levels (19). A vertical acquisition refers to a firm acquiring a supplier or distributor of one or more of its goods or services. Firm becomes

vertically integrated through type of acquisition, in that it controls additional parts of the value chain (4).

Related acquisitions - The acquisition of a firm in a highly related industry is referred to as a related acquisition. However, because of the difficulty in achieving synergy, related acquisitions are often difficult to value.

Acquisition intended to increase market power are subject to regulatory review as well as to analysis by financial markets. Thus, firms seeking growth and market power through acquisitions must understand the political/legal segment of general environment in order to successfully use an acquisition strategy.

2.1.4 Reasons for acquisitions

Following reasons support the use of acquisitions strategy. Although each reason can provide a legitimate rationale for an acquisition, the acquisition may not necessarily lead to a competitive advantage (4).

Increased power market

A primary reason for acquisitions is to achieve greater market power that exists when a firm is able to sell its good or services above competitive levels or when the costs of its primary of support activities are below those of its competitors. Market power usually is derived from the size of the firm and its resources and capabilities to compete in the marketplace. It is also affected by the firm's share of the market. Therefore, most acquisitions designed to achieve greater market power entail buying a competitor, a supplier, a distributor, or a business in a highly related industry to allow exercise of a core competence and to gain competitive advantage in the acquiring firm's primary market. One goal in achieving market power is to become a market leader.

Overcoming entry barriers

Barriers to entry are factors associated with the market or with the firms currently operating in it that increase expense and difficulty faced by new ventures trying to enter that particular market. For example, well-established competitors may have substantial economies of scale in the manufacture of service of their products. In

addition, enduring relationships with customers often create product loyalties that are difficult for new entrants to overcome. When facing differentiated products, new entrants must spend considerable resources to advertise their goods or services and may find it necessary to sell at prices below competitors' to entice customers.

Facing the entry barriers created by economies of scale and differentiated products, a new entrant may find the acquisition of an established company to be more effective than entering the market as a competitor offering a good or service that is unfamiliar to current buyers. In fact, the higher barriers to market entry, the greater the probability that a firm will acquire an existing firm to overcome them. Although, the acquisition can be expensive, it provides the new entrant with immediate market access.

Cross-border acquisitions are often made to overcome entry barriers. These acquisitions are made between companies with headquarters in different countries. Compared to cross-border alliance, a cross-border acquisition gives a firm more control over its international operations. In the global economy, companies throughout the world are choosing this strategic option with increasing frequency. In recent years, cross-border acquisitions have represented as much as 45 percent of the total number of annual acquisitions.

Cost of new product development and increased speed to market

Developing new product internally and successfully introducing them into the marketplace often require significant investments of a firm's resources, including time, making it difficult to quickly earn a profitable return. Acquisitions are another means a firm can use to gain access to new products and to current products that are new to the firm. Compared to internal product development processes, acquisitions provide more predictable returns as well as faster market entry. Returns are more predictable because the performance of the acquired firm's products can be assessed prior to completing the acquisition.

Acquisitions often represent the fastest means to enter international markets and help firms overcome the liabilities associated with such strategic moves. Acquisitions provide rapid access both to new markets and to new capabilities. Using new capabilities to pioneer new products and to enter markets quickly can create advantageous market position.

Lower risk compared to developing new products

Because of an acquisition's outcomes can be estimated more easily and accurately compared to the outcomes of an internal product development process, managers may view acquisitions as lowering risk. Acquisition have become a common means of avoiding risky internal ventures (and therefore risky R&D investments), they may also become a substitute for innovation. Thus, acquisitions are not risk-free alternative to entering new market through internally developed products.

Increased diversification

Acquisitions are also used to diversify firms. Based on experience and the insights resulting from it, firms typically find it easier to develop and introduce new products in markets currently served by the firm. In contrast, it is difficult for companies to develop products that differ from their current lines for markets in which they lack experience. Thus, it is uncommon for a firm to develop new products internally to diversify its product lines. Using acquisition to diversify a firm is the quickest and, typically, the easiest way to change its portfolio of business.

Reshaping the firm's competitive scope

The intensity of competitive rivalry is an industry characteristic that affects the firm's profitability. To reduce the negative effect of an intense rivalry on their financial performance, firms may use acquisitions to lessen their dependence on one or more products or markets. Reducing a company's dependence on specific markets alters the firm's competitive scope.

Learning and developing new capacities

Some acquisitions are made to gain capabilities that the firm does not possess. For example, acquisition may be used to acquire a special technological capability. Firms can broaden their knowledge base and reduce inertia through acquisitions. Therefore, acquiring firms with skills and capabilities that differ from its own helps the acquiring firm to learn new knowledge and remain agile. Of course, firms are better able to learn these capabilities if they share some similar properties with the firm's current capabilities. Thus, firm should seek to acquire companies with different but related and complementary capabilities in order to build their own knowledge base.

2.1.5 Problems in Achieving Acquisition Success

Acquisition strategies based on legitimate reasons can increase strategic competitiveness and help firms earn above-average returns. However, acquisition strategies are not risk-free. Research suggests that perhaps 20 percent of all mergers and acquisitions are successful, approximately 60 percent produce disappointing results and the last 20 percent are clear failures. Successful acquisitions generally involve a well-conceived strategy in selecting the target, avoiding paying too high a premium, and employing an effective integration process. Several problems may prevent successful acquisitions (4).

Integration difficulties

Integrating two companies following the acquisition can be quite difficult. Integration challenges include melding two disparate corporate cultures, linking different financial and control systems, building effective working relationships (particularly when management styles differ), and resolving problems regarding the status of the newly acquired firm's executives. The importance of successful acquisition should not be underestimated. Without it, an acquisition is unlikely to produce positive returns. It is important to maintain the human capital of the target firm after acquisition. Much of an organization's knowledge is contained in its human capital. Turnover of key personnel from the acquired firm can have a negative effect on the performance of the merged firm. The loss of key personnel, such as critical managers, weakens the acquired firm's capabilities and reduces its value. If implemented effectively, the integration process can have a positive effect on target firm managers and reduce the probability that they will leave.

Inadequate evaluation of target

Due diligence is a process through which a potential acquirer evaluates a target firm for acquisition. In an effective due-diligence process hundreds of items are examined in areas as diverse as financing for the intended transactions, differences in cultures between the acquiring and target firm, tax consequences of the transaction, and actions that would be necessary to successfully meld the two workforces. Due diligence is commonly performed by investment bankers, accountants, lawyers, and management consultants specializing in that activity, although firm actively pursuing acquisitions

may form their own internal due-diligence team. The failure to complete an effective due-diligence may easily result in the acquiring firm paying an excessive premium for the target company. In fact, without due diligence, the purchase price is driven by the pricing of other “comparable” acquisitions rather than by a rigorous assessment of where, when, and how management can drive real performance gains. In these cases, the price paid may have little to do with achievable value.

Large or extraordinary debt

To finance a number of acquisitions, some companies have to significantly increase their debts. High debts can have several negative effects on the firm. For example, because high debt increases the likelihood of bankruptcy, it can lead to downgrade in the firm’s credit rating by agencies such as Moody’s and Standard and Poor’s. In addition, high debt may preclude needed investment in activities that contribute to the firm’s long-term success, such as R&D, human resource training, and marketing. Still, use of leverage can be a positive force in a firm’s development, allowing it to take advantage of expansion opportunities. However, too much leverage (such as extraordinary debt) can lead to negative outcomes, such as R&D expenditures, that are necessary to maintain strategic competitiveness over the long term.

Inability to achieve synergy

Synergy exists when value created by units working together exceeds the value those units could create working independently. That is, synergy exists when assets are worth more when used in conjunction with each other than when are used separately. For shareholders, synergy generates gains in their wealth that they could not duplicate of exceed through their own portfolio diversification decision. Synergy is created by the efficiencies derived from economies of scale and economies of scope and by merging resources across the businesses in the merged firm.

A firm develops a competitive advantage through an acquisition strategy only when a transaction generates private synergy. Private synergy is created when the combination and integration of the acquiring and acquired firms’ assets yield capabilities and core competencies that could not be developed by combining and integrating either firm’s assets with another company. Private synergy is possible when firms’ assets are complementary in unique ways; that is, the unique type of asset

complementarity is not possible by combining either company's assets with another firm's assets. Because of the uniqueness, private synergy is difficult for competitors to understand and imitate. However, private synergy is difficult to create.

A firm's ability to account for costs that are necessary to create anticipated revenue- and cost-based synergies affects the acquisition's success. Firms experience several expenses when trying to create private synergy through acquisitions. Called transaction costs, these expenses are incurred when firms use acquisition strategies to create synergy. Transaction costs can be direct or indirect. Direct costs include legal fees and charges from investment bankers who complete due diligence for acquiring firm. Indirect costs include managerial time to evaluate target firms and then to complete negotiations, as well as the loss of key managers and employees following an acquisition. Firms tend to underestimate the sum of indirect costs when the value of the synergy that may be created by combining and integrating the acquired firm's assets with the acquiring firm's assets is calculated.

Too much diversification

In general, firms using related diversification strategies outperform those employing unrelated diversification strategies. However, conglomerates, formed by using unrelated diversification strategies, also can be successful. At some point, firms can become overdiversified. The level at which overdiversification occurs varies across companies because each firm has different capabilities to manage diversification.

Even when a firm is not overdiversified, a high level of diversification can have a negative effect on the firm's long-term performance. For example, the scope created by additional amounts of diversification often causes managers to rely on financial rather than strategic controls to evaluate business units' performance.

Another problem resulting from too much diversification is the tendency for acquisitions to become substitutes for innovation. Typically, managers do not intend acquisitions to be used in that way. However, a reinforcing cycle evolves. Costs associated with acquisitions may result in fewer allocations to activities, such as R&D, that are linked to innovation. Without adequate support, a firm's innovation skills begin to atrophy. Without internal innovation skills, the only option available to a firm is to complete still additional acquisitions to gain access to innovation. Evidence suggests

that a firm using acquisitions as a substitute for internal innovations eventually encounters performance problems.

Managers overly focused on acquisitions

Typically, a fairly substantial amount of managerial time and energy is required for acquisition strategies to contribute to the firm's strategic competitiveness. Top-level managers do not personally gather all data and information required to make acquisition, but they make critical decisions on the target firms, the nature of negotiations, etc.

Company experience show that participating in and overseeing the activities required for making acquisitions can divert managerial attention from other matters that are necessary for long-term competitive success. Managers can get overly involved in the process of making acquisition. Although the target firm's day-to-day operations continue, most of the company's executives are hesitant to make decisions with long-term consequences until negotiations have been completed.

Too large

Most acquisitions create a larger firm that should help increase its economies of scale. These economies can then lead to more efficient operations. Many companies seek increases in size because of the potential economies of scale and enhanced market power. At some level, the additional costs required to manage the larger firm will exceed the benefits of economies of scale and additional market power. Additionally, here is an incentive to grow larger because size serves as a takeover defence.

However, the complexities generated by the larger size often lead managers to implement more bureaucratic controls to manage the combined firm's operations. Bureaucratic controls are formalized supervisory and behavioural rules and policies designed to ensure consistency of decisions and actions across different units of a firm. However, through time, formalized controls often lead to relatively rigid and standardized behaviour. Certainly, in a long run, the diminished flexibility that accompanies rigid and standardized managerial behaviour may produce less innovation. Because of innovation importance to competitive success, the bureaucratic controls resulting from a large organization can have detrimental effect on performance.

2.1.6 Effective acquisitions

Acquisition strategies do not consistently produce above-average returns for the acquiring firm's shareholders. Nonetheless, some companies are able to create a value when using an acquisition strategy. Results from a research study shed light on the differences between unsuccessful and successful acquisitions strategies and suggest that there is a pattern of actions that can improve the profitability of acquisition success. When the target firm assets are complementary to the acquired firm's assets, an acquisition is more successful. With complementary assets, integrating two firm's operations has a higher profitability of creating synergy. In fact, integrating two firms with complementary assets frequently produces unique capabilities and core competencies. With complementary assets, the acquiring firm can maintain its focus on core businesses and leverage the complementary assets and capabilities from the acquired firm. Often, targets were selected and "groomed" by establishing a working relationship prior to the acquisition. Strategic alliances are sometimes used to test the feasibility of the future merger or acquisition between involved firms (4).

Study result also shows that friendly acquisitions facilitate integrations of the firms involved in an acquisition. Through friendly acquisitions, firms work together to find ways to integrate their operations to create synergy. In hostile takeovers, animosity often results between the two top-management teams, a condition that in turn affects working relationships in newly created firm. As a result, more key personnel in the acquired firm may be lost, at those who remain may resist the changes necessary to integrate the two firms. With effort, cultural clashes can be overcome, and fewer key managers and employees will become discouraged and leave.

Additionally, effective due-diligence processes involving the deliberate and careful selection of target firms and an evaluation of the relative health of those firms contribute to successful acquisition.

Another attribute of successful acquisition strategies is an emphasis on innovation. Significant R&D investments show a strong managerial commitment to innovation, a characteristics that is increasingly important to overall competitiveness, as well as acquisition success.

Flexibility and adaptability are the final two attributes of successful acquisitions. When executives of both acquiring and acquired firms have experience in managing change and learning from acquisitions, they will be more skilled at adapting their capabilities to a new environment. As a result, they will be more adept at integrating the two organizations, which is particularly important when firms have different organizational cultures.

Efficient and effective integration may quickly produce desired synergy in the newly created firm. Effective integration allows the acquiring firm to keep valuable human resources in the acquired firm from leaving (4).

2.1.7 Guidelines for successful acquisitions

To avoid pitfalls and make successful acquisitions, companies need to take a structured approach to purchasing companies based on four components: target identification and pre-acquisition screening, bidding strategy, integration and learning and experience (3).

1. Target identification and pre-acquisition screening

Thorough pre-acquisition screening increases a company's knowledge about a potential takeover target and lessens the risk of purchasing a potential problem business – one with a weak business model. It also leads to a more realistic assessment of the problems involved in executing a particular acquisition so that a company can plan how to integrate the new business and blend the organizational structures and cultures. The screening process should begin with a detailed assessment of the strategic rationale for making the acquisition, an identification of the kind of a company that would make an ideal acquisition candidate, and a thorough analysis of the strengths and weaknesses of its business model by comparing it to other possible acquisition targets.

Indeed, an acquiring company should scan potential acquisition candidates and evaluate each according to a detailed set of criteria, focusing on its financial position, its distinctive competencies and competitive advantage, the changing industry boundaries, its management capabilities, and its corporate culture. Such an evaluation will help the company identify the strengths and weaknesses of each candidate and the potential

economies of scale and scope between the acquiring and the acquired companies. It will also help it to recognize potential integration problems and the problems that might exist when it is necessary to integrate the corporate cultures of the acquiring and the acquired companies.

2. Bidding strategy

The objective of the bidding strategy is to reduce the price that company must pay for its target. The most effective way that a company can acquire another is to make a friendly takeover bid, which means the two companies work out an amicable way to merge the two companies that satisfies the need of stockholders and top managers. A friendly takeovers help prevent speculators from bidding up stock prices.

By contrast, in a hostile bid, the price of the target company is often bid up by speculators who expect that the offer price will be raised by the acquirer or that another company, sometimes called a white knight, might come with a counteroffer more favourable to the management of the company. Another essential element of a good bidding strategy is timing, with good timing, a company can bargain purchase.

3. Integration

Despite good screening and bidding, an acquisition will fail unless the acquiring company possesses the essential organizational design skills needed to integrate the acquired company into its operations and so quickly develop a viable multi-business model. Integration should centre on the source of potential strategic advantage of the acquisition – for instance, opportunities to share marketing, manufacturing, R&D, financial or management resources. Integration should also involve steps to eliminate any duplication of facilities or functions. In addition, any unwanted business units of the acquired company should be divested.

4. Learning and experience

Research suggests that, although many acquisitions do fail to create value for the acquiring company, companies that acquire many companies over time become expert in this process and so can generate significant value from their acquisitions. One reason may be that they learn from their experience and develop a system of how to execute an acquisition more efficiently and effectively.

2.2 Change management

Organizations are not fixed and static, one of the basic tasks the company is facing, is the ability to adapt to the changing conditions. The aim of the intended change is to keep the organization viable, competitive and efficient. According to the fact, that organizations are open systems dependent on their environment and because of the environmental instability, the organizations have to develop internal mechanism supporting planned changes. There are many reasons for potential change. From the long-term strategic planning point of view, it is important to think about these reasons and their identification, their importance and first of all estimate future behaviour. Any acquisition cannot do without reorganization. Double counting must be reduced and coordinate positions must be created. During acquisition with the purpose of company enlargement, many structural consequences are to be expected (1).

2.2.1 Typology of organizational change

Hayes (2) identifies four types of change:

1. Tuning is change that occurs when there is no immediate requirement to change. In involves seeking better ways of achieving and/or defending the strategic vision. For example, improving policies, methods, procedures; introducing new technologies; redesigning processes to reduce cost, time-to-market, etc. or developing people with required competencies. Most organizations engage in a form of fine tuning much of the time. This approach to change tends to be initiated internally in order to make minor adjustment to maintain alignment between internal elements of the organization and between the organization's strategy and the external environment.
2. Adaptation is an incremental and adaptive response to a pressing external demand for change. It might involve responding to a successful new marketing strategy adopted by a competitor or to a change in the availability of a key source. Essentially, it involves, within a broad terms, doing more of the same but doing it better in order to remain competitive. An example of adaptive change might be what happens when

one company is forced to respond to a competitive move by another. This kind of change is not about doing things in fundamentally different ways or about doing fundamentally different things.

While tuning and adaptation can involve minor or major changes, they are types of change that occur within the same frame, they are bounded by the existing paradigm. Re-orientation and re-creation, on the other hand, are types of change that target “the playing field and the rules of the game rather than the way a particular game is played.” They involve transforming the organization and bending or breaking the frame to do things differently or to do different things:

3. Re-orientation involves re-definition of the enterprise. It is initiated in anticipation of future opportunities or problems. The aim is to ensure that the organization will be aligned and effective in the future. It may be necessary to modify the frame but, because the need for change has been anticipated, this could involve a gradual process of continuous frame-bending.
4. Re-creation is a reactive change that involves transforming the organization through the fast and simultaneous change of all its basic elements. It inevitably involves organizational frame-breaking and the destruction of some elements of the system. It can be very disorienting process.

The most common type of change is incremental (either fine tuning or adaptation) but it is not unusual for a single organization to be involved in more than one type of change at the one time.

2.2.2 Effective change strategies

Hayes (2) has identified two well-tried strategies, but argues that the most effective strategy is a third way that combines the best of both.

a) Economic strategies

These focus on the drive for economic value through tough, “top-down”, result-driven action. The actions involve the imposition of technical solutions to those

problems that are seen to undermine organizational effectiveness. There are wide range of such solutions including restructuring, reengineering, drives for efficiencies and layoffs. Often large groups of consultants are employed to help top management drive them into the organization.

Sometimes a new CEO or other senior executive might be appointed to act as a “turn-around” manager. However, economic strategies have been criticized on the grounds that they often destroy human commitment: they might deliver short-term results, but they may not guarantee longer-term success.

b) Organization development strategies

These focus on creating the capabilities required to sustain competitive advantage and high performance. Beer and other identify some of these capabilities as:

- coordination and team work
- commitment and trust
- competence (technical and leadership)
- open communications
- creativity
- the capacity for constructive conflict
- learning.

Organization development strategies emphasise the importance of shared purpose, a strong culture, “bottom-up” change and involvement rather than financial incentives as the motivation for change. This approach can improve shareholder value but it has been criticised on the grounds that it is too indirect and takes too long, especially when the need for change is urgent.

Hayes (2) asserts that while both economic and organizational development strategies can produce improvements, neither of these strategies is as effective as one that combines “top-down” result-driven change with the slower “bottom-up” development of organizational capability.

2.2.3 Key steps in the change process

Change is often managed less effectively than it might be because those responsible for managing it fail to attend some of the critical aspects of the change process (2).

Recognition

The start of the process is the recognition that external events or internal circumstances require a change to take place. Recognition involves complex processes of perception, interpretation and decision making that, if not managed carefully, can lead to inappropriate outcomes – for example, the organization might fail to change when it needs to, or it may change when change is not required.

Start of the change process

The start of the change process involves translating the need for change into a desire for change, deciding who will manage the change and, especially where an external change agent is introduced to help with this process, establishing a workable and effective change relationship. The change may start with a formal announcement or it may be less explicit, but, at some point, it typically involves a review, feasibility study or project. Critical questions that need to be considered at this stage are: Who to involve? What to make public (if anything)? Who should have management responsibility? Important is to think about how to gain acceptance that change is needed.

Diagnosis – reviewing the present state and identifying the preferred future state

Although reviewing the present and identifying the future state may seem at first sight to be separate and distinct activities, in practice they are often integrated. These two steps frequently go through several iterations, processing from broad concept towards something that is sufficiently concrete and detailed to be implemented.

Present state of the organisation can often be understood only in terms of the context of its past history and its external environment. The precise objectives for reviewing the present state will depend upon the type of change that is being managed. Common reasons are to help identify the required change by diagnosing the cause of a problem, identifying current deficiencies or clarifying opportunities; establish a baseline so that it is clear what is changing; help define future direction. Data gained from this

kind of review can also be used to help assess how organizational members and other stakeholders will react, and to prepare people for change.

What is required when *identifying the future state* depends on the kind of change that is being undertaken, and on the role of change managers in the overall process. If the change managers are responsible for initiating the change their task is likely to involve developing a view or “vision” of what they think organisation ought to look like in the future. If, on the other hand, their role is to implement a change that is being imposed from elsewhere, their task may be more limited to thinking though and visioning the likely impact of the change.

Prepare and plan for implementation

Detailed analysis of the future and present state will lead to the identification of long list of things which could be done in order to make the proposed change a reality. There will be different lead-times associated with various tasks, interdependencies between them and resource and other constraints.

All of these things need to be taken into account when developing an implementation plan. Implementation is not only technical activity, but it has also political dimension. It needs to address the extent to which people are ready for and accepting of change, and whether the process threatens them in any way. Choices need to be made, such as which method to adopt to implement the change and whether to proceed to full implementation or start with trial or pilot.

Implement change

Whatever has been planned now needs to be implemented and the focus shifts from planning to action. Attention also needs to be given to monitoring and control to ensure that things happen as intended.

Review and consolidate

Some form of the post-implementation review needs to be implied, but in practice monitoring and reviewing progress are on-going activities, as progress is measured against key milestones. Consolidation involves, among other things, ensuring that there are feedback mechanisms and reward systems in place that will monitor and reinforce desired new behaviours.

2.2.4 Preconditions for managed change

The aim of managed change is the concrete reaction to concrete influence of internal and external character. To manage a change, some prerequisites need to be fulfilled (1).

Maximal knowledge of the problems - Maximal knowledge of the problems and the given company is the first logical precondition of whole process initiation. Radical changes cannot be done without previous elementary analysis, based on perfect knowledge of the domain and the company, including familiarity with informal relations, unofficial, communication and realistic point of view.

Impossible to change one element of the system while the others remain unchanged - Everybody has the tendency to find the simplest solution, but in an organization many basic components are closely related and strongly tied up. This means that while intervene in one of the systems, it is necessary to analyze behaviour of the others and potentially intervene in these systems as well.

People (personnel) are resistant to anything threatening - Natural resistance can become huge problem and thus optimal solution is necessary while managing a change.

Change in behaviour of people is long-term and complex process - In the contrast with technological changes, changes in people behaviour cannot be easily modified or completely changed. It must be changed in a certain progressive steps which should take a long time for personnel to get used to.

Radical change causes stress - For majority of employees immediately affected, radical change causes stress. Reactions of some people can be in certain tense situations inadequate and related decision can be absolutely wrong. This stress should be reduced or if possible eliminated.

Importance of participation - Participation on potential changes reduces the degree of resistance and decreases concerns of unknown. Upcoming changes need to be discussed with involved colleagues and subordinates in order to inform them and thus simplify management of whole change process, in better case discussions can point out existing imperfections.

2.2.5 Model of managed change

Model of managed change is made by following stages (1):

- Strategic analysis (or its parts)

At the beginning there must be a qualified decision if the change is needed or not. The change process thus must represent reaction to certain imperfections or drawbacks. This task can be solved by using one of the common methods of strategic analysis, possibly their combination. For decision-making, factors analysing common environment and branch surroundings and internal factors will be taken into account, as well as current strategies. Current weakness and future threats are the most important outcome of strategic analysis. The result of this analysis is the decision concerning the present state which can be convenient (no radical changes needed), satisfactory (slight intervention required) and inconvenient (current weakness and future threats are very important, radical changes need to be initiated).

- Force field analysis

Analysis of force of field is a tool to analyse situation required certain change. Analytical conclusion is identification of factors supporting the change process (pros) and factors blocking this process (cons). Identification and knowledge of pros and cons helps to modify external factors in order to conclude requested process with expected results.

- Model formation

Model formation means definition of parameters that should be reached by change process realization. These parameters should comply with two basis preconditions based on previous analyses – current weaknesses and future threat (which should be eliminated by model) and structure of forces identified in force field analysis (model should correspond especially with future force allocation structure). Parameters must be defined precisely and if possible numerically.

- Identification of change agent

Change agent is an individual or group of employees who carry the whole change process and play an important role in management of change. The main task of agent is planning of the process of change which also means deeper understanding of all

important groups and individual (in positive and negative sense). Change agent ensures smooth progress and acquirement of maximal results, as well as barriers elimination. Usually, top and medium-level management are considered to be main participant of change processes and play an important role in all phases of the process. Managers are change initiators, determine change terms and direction, decide about order of the change realization, and authorize employees responsible for partial steps leading to a change. Change agents can be internal and external according to the needs and capabilities of the organization.

- Identification of intervention areas

Intervention strategy specifies the subject of change and company subsystems that will be influenced by the change. Usually change processes are focused to the following intervention area: human resources and their management, organization chart, technologies, organization processes and information (communication) flows.

- Intervention, actual change

The phase of change implementation is quite challenging process when all previous preparations will be used. Implementation process consists of three steps. First step concerns progression of activities in time, second identifies three phases of change (unfreezing, factual change, freezing) and third steps includes implementation tactics (intervention, participation, persuasion, forcing, learning and communication, negotiating, manipulating).

- Verification of attained results

Final phase of change process is results evaluation and assessment of attained situation. This state is possible to evaluate on the basis of the selected criteria. Appraising criteria must be specified at the beginning of the change process. Result evaluation does not take place only at the end of the process; on the contrary process and change implementation must be monitored continuously. Determination of the optimal objectives is important prerequisite of successful mastering of the process of managed change.

3. PROBLEM ANALYSIS

3.1 Water supply and sewerage systems in Czech Republic

The water management sector in the new EU member states, and the Czech Republic is no exception, faces an important challenge - to modernize water and sewerage systems ensuring that these comply with European standards and norms. The Czech Republic has taken many steps to secure water cleanness and its protection since 1989. A number of new waste water treatment plants were built. Modern water management and cleaning technologies have been used and strict standards on the protection of water and water courses have been adopted.

Pursuant to the Act No. 254/2001 Coll., on Water and Amendments to Some Acts (the Water Act), state administration is exercised by water authorities and the Czech Environmental Inspection. The water authorities are municipal authorities, regional authorities and ministries. According to the Water Act the central water authority is the Ministry of Agriculture. The Ministry of the Environment performs state administration in the following areas: protection of the quantity and quality of surface water and groundwater, monitoring and assessment of the status of surface water and groundwater, the development and maintenance of the information system, protection of water resources, charges for the abstraction and discharge of water etc (10).

Nowadays, 9.53 million inhabitants (92.3%) are supplied with drinking water by water supply systems, which is above the average of the EU member countries. The average household consumption is almost 100 litres per person per day. The quality of the drinking water supplied ranks among the best in Europe. The concept of the further development of the water supply and sewerage up to 2015 is presented in the Plan of the Development of Water Supply and Sewerage for the territory.

Thanks to the support within the programmes of Ministry of Agriculture and the Ministry of the Environment there has also been a significant progress in the construction of sewerage systems and waste water treatment plants. As a result of this there has been a rise in the proportion of inhabitants connected to these systems, which exceeded 80 %. Over 95 % of the amount of discharged waste water is treated, which of

course helps to improve the quality of water in our watercourses. Also the data from monitoring confirm the high standard of the water quality (11).

Other improvement in quality of technological processes of waste water treatment is needed, both legislative amendments to regulations, plans and programmes for measures enabling the improvement of the state of aquatic ecosystems help to suppress this unfavourable trend.

Federation of Branch of Water Supply and Sewerage (Czech acronym SOVAK) is a voluntary, non-profit-making interest federation of legal entities in the branch of water supply and sewerage for public use. It brings together legal entities on the territory of the Czech Republic whose activity is the ensuring of water supply and the collection and treatment of waste water both from the aspect of operation and ownership, development and also construction. It represents its members during negotiations with state bodies in matters which are the common interest of its members (activity concerning the creation of legislation and standards). It ensures services of an educational, consultation and information nature for its members. It cooperates with similar organisations both in the Czech Republic and abroad. Companies in SOVAK supply water to more than 90% of the inhabitants of the Czech Republic connected to public water supply systems (11).

Drinking water supply

The length of the water supply network in 2008 was extended by a total of 1 104 km and reached a length of 70 539 km. The number of water supply connections increased by 28 633 and reached the number of 1 842 120. The number of installed water metres increased by 45 071 and reached the number of 1 856 847.

Removal and treatment of communal waste water

In 2008, more than 8.344 million inhabitants of the Czech Republic lived in households connected to the sewerage systems. A total of 519.3 million m³ of waste water was discharged into sewerage systems. Of this amount 95.8 % of waste water (not including rain water) was treated, which represents 497.6 million m³. In 2008 the length of the sewerage system was extended by 1 060 km and reached the length of 37 689 km.

Development of water supply and sewerage charges

Payments for deliveries of drinking water or non-potable water are called water supply charges, and payments for the collection and treatment of waste water and precipitation are called sewerage charges (11).

Since 1994 water supply and sewerage charges have not been subsidised from the state budget and they are regulated materially. The main fundamentals of material regulation of the prices of drinking water and water collected by sewerage systems in the current year are given in a pricing bulletin every year for the field of water supply and sewerage. The subject of material regulation of prices according to the assessment of the Ministry of Finance are drinking water and non-potable water delivered to direct client or to a public water supply network administered by another subject ("water passed on"), untreated water collected by sewers, waste water and specially treated water. The materially regulated prices are single element, relating to 1 m³ of delivered or collected water (11). It is only possible to include justifiable costs and reasonable profit in the price (10).

In 2008 according to the investigation of the Czech Statistical office the average price of water supply charge (including VAT) was 24.60 CZK/ m³ and the average price of sewerage charge was 21.50 CZK/ m³.

Difference in price of water supply charge and sewerage charge among the individual companies operating water supply systems and sewerage systems is given by the initial conditions for operating in a given region, for example spatial distribution of consumption areas, level of usage of water supply and sewerage system capacity etc (11).

The volume of invoiced water for households since 1990 dropped from 171 l/person/day to 96 l/ person/day, i.e. by 39 %. The drop is caused by the billing of real (unsubsidised) prices and technical equipment for water saving at the consumer (10).

In the Czech Republic, the measures required for reaching the accepted EU environmental standards in water supplies and waste-water management are the most important overall conditions for the future.

3.2 The business environment of water market


Providers of drinking-water supplies and waste-water management in Europe are facing growing demands from customers. The central topics of these demands relate to the security of supplies, water quality, the sustainable utilization of resources and socially acceptable prices. Meeting these demands requires increasing investments into the infrastructure of the water industry. In this context, privately owned water-supply companies with efficient operations have assumed an important role. The privatization processes of public water-supply and waste-water management systems have reached different levels in the various countries in Europe. The so-called operator model is given preference as a standard solution in the majority of cases. In these cases the municipality remains the owner of the water-supply infrastructure, while mostly private companies are in charge of operations, on the basis of operating contracts. As a rule, operator models are based on long-term agreements that have terms of up to 25 years.

The General Agreement of Trade in Services has also created public interest in the liberalization processes on international markets and thus also in water supply systems. The EU currently looking into possibilities for liberalization, with the goal of creating more competition. Since 2004, all EU Member States have been obliged to carry out an economic analysis of their domestic water industry, with a view to the implementing process of the EU Water Framework Directive. This directive stipulates, *inter alia*, that – as of 2010 – all processes in the water industry must be performed on the basis of transparent costs. These requirements offer positive development opportunities for private water-management and waste-water service companies, as public cross-subsidization of water and waste-water prices is to be avoided.

The new standards require a clear increase in the level of link-ups to sewage installations and in the purification performance of treatment plants. On account of the modernization and expansion of the water-industry infrastructure, the overwhelmingly public owners must reckon with considerable investment needs for this infrastructure, which can only be met by way of grants. As the final version of the current guidelines for grants is not yet available, the necessary privatization processes have clearly slowed down in the Czech Republic (9).

3.3 Strategic analysis of acquired firm VHOS, a.s.

3.3.1 Basic information

Company name:	VHOS, a. s.	
Company address:	Nádražní 6, 571 01 Moravská Třebová Czech Republic	
Identification number:	48172901	
Tax registration number:	CZ48172901	
Registered capital:	CZK 35.815.000	
Business objective:	production and distribution of drinking water and drainage and treatment of wastewater, pumping device service and repair building production, water management services	
Legal form:	joint-stock company	
Employees:	approx. 200 employees	
Statutory authority:	Board of directors (4 members) Supervisory board (3 members)	
Web address:	www.vhos.cz	

The company was incorporated into a commercial register of Regional Court in Hradec Králové the 1st of November, section B, and insert 965. Registered capital of the company consists of 35.815 bearer shares fully subscribed and redeemed, with nominal value of CZK 1000 per share.

The company's activities are based on delegated management of water management facilities for towns and municipal associations. As part of its operating agreement, VHOS, a.s. assumes the management and operation of a given entity's water management facility.

VHOS, a.s. applies its proven operating model, which most municipalities in the Czech Republic have adopted. The model is that the municipality retains ownership of the water management infrastructure and thus control over water and sewerage prices, entrusting only the production of drinking water and drainage and treatment of wastewater to a professional company that, in addition to its industrial know-how, can efficiently manage a business. Advantages of the operating model:

- The municipality retains control over water and sewerage prices.
- Lease of infrastructure to a professional company allows the municipality to pass to the operating company the responsibility for co-financing large capital projects, e.g. using prepaid rent, investments to be carried out under agreements or guarantees for bank loans. The operator can also greatly assist in obtaining financing from EU funds for further development of water management infrastructure.
- Use of synergic effects (centralised procurement, co-ordinated technical activities, common call centres etc.) shows in a better quality of work and lower operating costs, which leads to the long-term stability of water prices

The main line of business of the analysed company VHOS, a.s. are production and distribution of drinking water and drainage and treatment of wastewater, furthermore building production and pumping device service and repair, water management services.

VHOS, a.s. possess the certificate ISO 9001: 2000 for building production realization and pumping device service, and certificate ČSN EN ISO 14001: 2005 and also laboratory activity accreditation.

The analysed company VHOS, a.s. is 100% owner of subsidiary company VHOS-KA s.r.o. Moravská Třebová that handles hazardous waste and monitor underground services. The company does not own any other shares.

The analysed company VHOS, a.s. is in the domain of production and distribution of drinking water and drainage and treatment of wastewater dominant provider in its region of activity. The company's market position is actually very strong. Its strong market position comes out from contractual relations between the towns and

municipalities as the owners of water management facilities and VHOS, a.s. as its operator and service provider. This position is independently contractually specified in operating agreements towards partial and individual property units. All contracts are however conditioned by the quality of provided services and the stability of relations towards the water management facilities owners. The position on other professional markets is determined by successfulness in accomplishing of the orders or competitive tendering.

The objectives of the company are simple and nowadays very important. The main goal is to maintain company's position in the region of activity and possibly expand business and thus increase profit from main activities as well as from collateral activities. Further target is to keep maintaining high quality of provided operations and services and thereby guarantee the maximum quality of supplied drinking water and perfect result in treatment of sewage.

The management of the company has four levels. The basic organization units are divisions and departments which are further divided into sections and subdivisions. Organization sections are not autonomous accounting units, the company keeps interdepartmental bookkeeping. For organization chart see Appendix No.2.

3.3.2 Business objectives

Main operations of the analysed company VHOS, a.s. are production and distribution of drinking water and drainage and treatment of wastewater, further building production and pumping device service and repair, water management services. The acquired company also supports the sale and distribution of water management devices and material, sanitary goods and technical and technological activities in the domain of water management.

The operating of water conduit generates as a product drinking water and its distribution. While operating sewerages, the product is providing a service, which means drainage and purification of waste water. Other important activity of the company, sale and service of pumping device and facilities brings as a product service to customers, thus reparations of pumps and pumping devices.

Other marginal working activities are related to main line of business and are accompanying activities ensuring services, maintenance and reparations of leasehold infrastructure property, thus water conduit and sewerages. In this domain company provides services like laboratory analysis realization, technical preparation of production, projection, retrieval of groundwater and underground networks, monitoring of underground networks and its purification and other petty services qualified by trade certificates listed in the commercial register. These are reparation of mechanical parts of pumps, engineering, purchase of the goods for the purpose of its subsequent sale and selling, determination and retrieval of underground conductions and its failures, production, installation and reparation of electric devices, production, reparation and installation of meters, activity of accounting consultants, activity of organizational and economic consultants, measurement of rate of flow of surface and waste water in pipelines and riverbed including sampling, handling of waste and handling of hazardous waste, water plumbing activities, lecturing and training, project activity in constructions performance of constructions, its changes and demolitions, road cargo transport, vehicle reparations, montage, reparation, revision and examinations of given electric facilities and its production and reconstruction, periodic examinations of gas cylinders, business procurement, production of low tension distributors, purchase, storage and sale of liquefied hydrocarbon gases in pressure container including its transport.

The analysed company VHOS, a. s. supplies drinking water directly to approximately 75 thousands of inhabitants connected to public water supply system. Length of run network is about 834 km, the number of water supply connections is 20.600, and total capacity of sources is approximately 653 litres/sec. Water consumption for public water conduit is only from underground sources.

Waste water is drained from 45 thousands of inhabitants, out of 35 thousands of inhabitants are purified in sewage water treatment plants, length of sewage network run by the company is approximately 228 km, there are 7.582 waste water connections connected to the network, overall capacity of all sewage water treatment plants is approximately 17.000 m³/day.

3.3.3 SWOT analysis

SWOT analysis contains overall evaluation of company's strengths and weaknesses, opportunities and threats. All characteristics were considered from different point of view, compared with the situation on the Czech water management market and then briefly formulated. SWOT analysis represents the basis for the company strategy and objectives formulation and comes out from the present situation. The SWOT analysis was formulated within the framework of the actual Czech legislative and the requirements and demands which are in this relation laid on the company.

For the purpose of the company's current situation evaluation, strengths and weaknesses are considered to be internal factors being associated with the problems of the domain of water management and that are potentially suggestible by developing activities in this field.

Given opportunities and threats are related to external processes and trends and thus are not directly suggestible by the company. Their identification and further monitoring are important for subsequent work. Understanding of external influences and various trends and tendencies allows structured preparation for use of the opportunities or on the contrary effective defence against threats that can endanger the effectiveness and competitiveness of the company. This analysis is used to comparison of advantages and drawbacks that have essential importance for the orientation and functioning in the company's environment.

Strengths - advantages of the company follow from technical, technological and personal assets of the company, its position on the market and objectives for the future.

- Vertically integrated operations,
- Strong market position, good name in the region of business activity, majority supplier of the services in the given region,
- Long-term professional experience as an operator of water supply and sewage systems, expert power of the company in the region of business activities,
- Staffing on high professional level, continual increase of personnel qualification,

- Cooperation with vocational schools in education and training of professional technical teams and future experts,
- Application of information technologies in above-average extent and in various spheres of activities,
- Communication with laic and specialist public, public relations through local medias and local authorities,
- Production and distribution of drinking water and drainage and treatment of wastewater are strictly speaking stable source of revenue with guaranteed profitability,
- Continuous cash flows from water charges ensure company basic functions as a principal volume of financial resources,
- Company fulfils strict ecological requirements related to basic product - water,
- Holder of certificates ISO 9001:2000 a ISO 14001 : 2005,
- Organization of expert seminar (16 years tradition), water exhibition attendance,
- Good contacts and relationships with the owners of infrastructure, municipal councils and local authorities.

Weaknesses - weak points of the analysed company have similar basis as the strengths, their identification and definition follows from different frame of reference to the points at issue. Weaknesses are especially:

- Geographic concentration,
- Insufficient value of amortizations and depreciation designated to new investment realization (the company does not possess significant volume of own property),
- Staffing variability in VHOS, a.s. relates to labour market situation in the region of business activity, company needs skilled and professional (technical and operating) employees which are not available at the local labour force market,
- Ecological requirements are disunited; central and state institutions have demanding requirements and controls towards specialist companies,
- Seasonality and non-standardization of certain payments (building production),
- Influence of atomisation of infrastructure properties (necessity to conclude many contracts with different municipalities).

Opportunities – opportunities of the company follow from its own activities and relates to external processes and situation.

- International expansions,
- Investments in existing activities expansion, enlargement of networks and field of activity, new opportunities in water distribution and drainage,
- Retrieval and launching of new activities, employment of full production and staff capacity or its increase, based on level of demand in the given region
- Marketing activities of the company,
- Cooperation in deliveries in a form of customer's or supplier's subcontracts,
- Implementation of quality certificates increases extent to order completion,
- Possibilities to gain financial subsidis for company's own investment and professional activity,
- Modernization of the assets and properties in collaboration with the owners on the infrastructure, with contribution of the state and EU investment resources,
- Attendance on specialized trade fairs, exhibitions and seminars.

Threats - the threats for the company are all negative external processes that could possibly influence company's functioning:

- The selling price of the basic product, water rates, are permanently regulated by the state institutions, especially Ministry of Finance,
- The owner of the infrastructure have the right and possibility to intervene and regulate especially profitability of the company (the domain of operating water supply and sewerage systems is under the political influence of municipalities and local authorities,
- Political instability and lobbying (especially in pre-election period),
- Macro-environment development – especially economic and political situation,
- Non-standard conditions during public tenders and selection procedures,
- Competitors that want to establish on the specific market of water management (all professional companies that fulfil qualification and technical preconditions to run water supply and sewerage system which are regulated by effective legislation).

3.3.4 FIVE FORCES analysis

The Porter's Five Force analysis is a simple but powerful tool for understanding where power lies in a business situation. This is useful, because it helps the company to understand both the strength of its current competitive position, and the strength of a position the company is looking to move into. With a clear understanding of where power lies, firm can take fair advantage of a situation of strength, improve a situation of weakness, and avoid taking wrong steps. This makes it an important part of firm's planning toolkit.

Threat of New Entry in the analysed industry and in the analysed region is continuous and concerns every subjects of enterprise. Each part of business is quite specific, domain is interesting for competitors and business is influenced by given locality. On the other hand, conditions and legislative requirements also affect the industry. As far as water supply and sewerage systems are concerned competitors recruit specialists from local similarly oriented companies and also from multinational corporations which operates in the given domain all around the world. In the given region, barrier of entry represent especially operational contract between water management company and the owner of the infrastructure property and its period of notice which is currently fixed at the level of three years.

Supplier Power is partly repressed by side exchange which means that suppliers in this industry are not seeking for maximum profit from goods and services deliveries, but for entering new markets and gaining new sales. After this step they tend to influence price of deliveries.

Buyer Power is, as far as production of drinking water and treatment of wastewater operations are concerned, also repressed by company's position and legislative. Buyers of drinking water and producers of wastewater are in contractual relation are subordinated to effective principles given by professional legislative and also in the region to prices regulated by relevant water price directions. Complex conditions of the water industry are moreover complicated by municipalities in position of investors and politics of subsidies of European Union.

Threat of Substitution in this specific industry is out of the question. Substitution in this case would not only mean alternative product, but also alternative supply and distribution device which means alternative drinking and waste water conducts. This is why the substitution is not easy or even viable, then this cannot weaken water company's power.

Competitive Rivalry in the analysed industry is strong and exists not only among companies from professional environment (local, domestic or multinational companies) but is also influenced by political environment at the level of municipalities. Domain of water management is still very interesting for both existing and new entering business subjects.

3.3.5 PESTEL analysis

Political factors - Political environment is very variable and unstable. Any political disagreements can have significant impact on company's business. Unclear future of newly adopted reforms leads to the uncertainty and doubts in the society. Especially the future development of the revenue act, labor code, and commercial code is important for the company and continual discussions about its amendments affect the entrepreneurial subjects negatively. Another important and unpleasant impact affecting the company's position in this field is lobbying, especially in the pre-election period.

Through the "Programmes for the development of water supply and sewerage systems of territorial units", in cooperation with the district authorities and significant owners and operators of water management infrastructure, the Ministry of Agriculture is creating a detailed specification of development of water management infrastructure which ensures an optimum solution for this development. Programmes for the development of water supply and sewerage systems of territorial units (i.e., parts of districts, entire districts or groups of districts), so

- analyse the conditions for ensuring the desirable level of water management infrastructure of the territorial unit,

- designate the basic concept for optimal development of supply of drinking water, collection and treatment of waste water, including the order of priorities in the individual localities of the unit in question with regard to ownership relations, possibilities of financing and social feasibility of the proposed procedures,
- serve as a basis for state administrative bodies and local government when promoting public interest and applying their decision-making powers,
- constitute an objective, specialist basis for decision making in the field of financial support for implementation of constructions on the part of the Ministry of Agriculture, Ministry of Finance, State Environmental Fund and district authorities (11).

Economic factors - Economic environment in the Czech Republic is nowadays unstable because it reacts on the global economic situation. Financial crisis slowed down economic growth in Czech Republic. Analysed company and the water industry generally experienced decrease in consumption of drinking water and production of waste water, even if the drop in the industry was not that significant like in other fields. Within its secondary activities company also experienced fall in volume of building orders. Czech labour market is glutted, unemployment rate is high and this means that there is, in a long-term, a dominance of difficultly employable people. Specialist companies have difficulties to find especially qualified and skilled labour force. Analysed company VHOS, a.s. considers its personnel to be one of the most important assets of the company, human capital is on the high professional level and one of the weaknesses is the variability of staffing related to the labour market in the region of business activity. To moderate impact of this unfavourable situation on the market, VHOS, a.s. is collaborating with vocational schools with the intent to educate and prepare students for their future carrier in the company.

Social factors - The company is influenced by the age structure and low purchasing power of the population in the “industrially weak” region. The average salary is also lower in the region of business activity than in larger regions in Czech Republic. The rate of unemployment in the region and its micro-regions (Moravskotřebovsko, Jevíčko)

is comparable to other territories in the country; nevertheless the company is dependent on the qualified working labour which is in the given region limited. The company often faces pressures from public side because of the seemingly high prices of water charges; price of water is as a social element important, the rate of social acceptability is significant factor influencing the water management industry and often is connected with political pressures on the society. In comparison with other regions and other water companies, VHOS, a.s. is affected by persistent low average consumption per capita and day (approximately 95 to 100 litres of drinking water per day).

Technological factors - Analysed company VHOS, a.s. is holder of certificates ISO 9001:2000 for realization of building production and service of pumping technologies, ČSN EN ISO 14001:2005 and moreover possesses accreditation for laboratory activities. Permanent pressure on lowering of operating costs causes stress on technological progress in production, dispatching, management of electricity consumption and cost control as a whole. Legislation imposes long-term obligation to restore systems with possibly long-term effect. This requires use of quality materials, techniques and technologies.

Ecological factors - As far as ecological factors are concerned, the analysed company is exposed to exigent requirements and disunited benchmarks from the side of central and state organization. Nowadays, the water industry is significantly affected by the legislative influence of European Union which is driven into the domain of protection of environment, concretely into drainage and purification of waste water. On the one hand, subsidies provided by European Union are financial resources for realization of given tasks, but on the other hand they influence and adjust in a significant way relation between the owners of infrastructure and its operators.

Legislation factors - Legislation in the Czech Republic still undergo different amendments and changes that are necessary to follow because new improvement proposal, confirmations and reforms project into company's day-to-day business.

The fundamental regulations for the area of water management are Act No. 254/2001 Coll., Concerning Water and Amendments to Certain Acts (called "the Water Act") and Act No. 274 /2001 Coll., Concerning Water Supply and Sewerage Systems

for Public Use and Concerning Amendments to Certain Acts (the Water Supply and Sewerage System Act). These acts govern this area in compliance with the relevant directives of the EU, including Directive 2000/60/ES, establishing the framework for the activity of the Union in the area of water policy.

The Water Act regulates the legal relations to surface and ground water, the relations of individuals and corporate bodies for the use of surface and ground water and relations to land and constructions which the occurrence of this water is directly associated with. The aim of the act is to protect surface and ground water and preserve and improve the quality of water and the creation of conditions for a reduction in the adverse impacts of floods and droughts and to ensure the safety of water management works.

The Water Supply and Sewerage System Act defines the legal framework for the proper activity of the water supply and sewerage branch under new conditions. The act defines the concept of water supply and sewerage systems, it regulates the rights and liabilities of owners of water supply and sewerage systems (including its relations with public administration), the rights and liabilities of operators and the relations between owners and operators, it introduces the recording of ownership of water supply and sewerage systems and details the duty to keep operational records and introduces the granting of permits for the operation of water supply and sewerage systems for public needs.

The decree designating parameters and values of acceptable water pollution which accompany the Act on Water Supply and Sewerage Systems is be especially important for the supply of drinking water and collection and treatment of sewerage.

The complex interconnection of relations and legal rules can cause termination of an operational agreement and thus termination of monopoly position of the operator in the market.

Water supply and sewerage charges are materially regulated by the price assessment published in the Bulletin of the Ministry of Finance. It is only possible to include justifiable costs and reasonable profit in the price. For the price charges calculation, company follows directive of Ministry of Agriculture.

3.4 Characteristics of acquiring company ENERGIE AG Wasser

Energie AG Wasser is the holding company of Energie AG Group for the water business and it is a major corporate group in Upper Austria. The activities of the group are focused on the fields of drinking water supply, waste water treatment, water related services, consulting and financing. The company's goal is to be the market leader or the first challenger. For 2008 the Energie AG Group was once again confirmed in its credit rating "A+" (Outlook negative) by Standard & Poor's, the international rating agency.

Energie AG Wasser pursues a value-based growth strategy in order to secure a significant long-term contribution to the result of the Energie AG Group. The development is based on business models that, as a matter of principle, are based on long-term agreements and thus have a low risk exposure. Growth is achieved by expanding activities throughout Austria's national territory, as well as by participating in privatization projects in the Czech Republic, Slovakia and Hungary. Moreover, further development potential is currently being explored in the countries of Central and Eastern Europe. The company is implementing of the growth strategy in the target markets and coordinates the modernization and development of its subsidiaries (9,13).

The markets of Energie AG and its subsidiaries are located in Austria, southern Germany, the Czech Republic, Hungary and Slovakia. The subsidiaries of the group are WDL GmbH in Austria, the operating companies VAK JČ, 1.JVS, VODOS Kolín and VS Chrudim and the asset company VAK Beroun, all in the Czech Republic. Energie AG Miskolc in Hungary is offering water related services, as well as Energie AG in Slovakia, Varinger in Slovenia (13). For more detail concerning structure of Energie AG Wasser, see Appendix No. 1.

The activities of the water segment in the Czech Republic have been integrated into Energie AG Bohemia s.r.o. In addition to managing and developing the associated companies, the tasks of Energie AG Bohemia s.r.o. also relate to handling acquisition projects that are currently being undertaken or can be expected for the near future in the course of the planned privatizations. Through Energie AG Bohemia, its subsidiary companies and ownership interests is active in the Czech Republic on the markets of the drinking and waste water, heat energy and public street lighting.

After the successful acquisition of an important water supply company in the Czech Republic, company succeeded in obtaining clear market leadership in southern Bohemia and as a private operator claims the third position on the Czech market behind the Veolia world's No 1 and Ondeo. In addition to further acquisitions and organic growth, the focus is now on optimizing costs and organizational structures through integration and restructuring (9). On the basis of its well-developed strategy, the company Energie AG takes advantage of all synergic effects within concern to meet its customers' needs and to provide a wide range of quality services in all field of infrastructure with emphasis on environment-friendly approach (15)

Water management quality is a high quality business and therefore needs high security and environmental standards. Since 2008 Energie AG Wasser is the first water supplier with full scale of ISO-certified quality- (9001), environmental- (14.001) and security management (18.001) system for the branches in Austria, Slovakia, Hungary and the Czech Republic (14).

The water segment continues to pursue a strategy geared to growth. In the CEE countries this growth is achieved organically, on the one hand, and by the acquisition of further operating companies and/or so-called mixed companies, on the other hand. Mixed companies own the water-industry infrastructure and also ensure their operation. Companies of this kind are primarily obtained by participating in public tenders (e.g. tenders for licenses). As the awarding processes are very complex, one must reckon with long lead times. After successful bidding for a company, it is integrated immediately into the group. These integration processes also include the realization of synergies and an increase in efficiency. The other associated operating companies in the Czech Republic also have clear objectives such as to gain additional market shares and to further raise the economic performance (9).

The further market development on the primary target markets in the Czech Republic, Slovakia and Hungary largely depends on the availability of EU subsidies in the future, as well as on the associated conditions for obtaining them. These, in turn, influence the position of the responsible political decision-makers towards privatization. At present, the entry into new markets is being examined (9).

3.5 Reasons for acquisition

An acquisition of the Czech water management company is for foreign investors interesting because of the relatively cheap purchase in the attractive branch of business with quite extensive territory and the possibility of increase of number of supplied inhabitants. Further reason for targeting Czech market is the knowledge of the Czech water management environment arising from prior acquisitions and business activities of the concern. Thanks to other Czech water management companies that belongs to the Energie AG concern, both acquiring and acquired companies could profit from synergic effects on the given business area. Moreover, owing to the realized acquisition, concern can attain a significant market share and strong market position in the interesting domain that allows penetrating further Central and Eastern European markets.

Targeted company VHOS, a.s. and its business activities in the given business area are attractive for the controlling company because of the possibility of the successive development and enlargement of the acquired territory in a form of subsequent acquisitions in the given area.

Recently there are many significant changes in the field of production and distribution of drinking water and drainage and treatment of wastewater. Except for notable changes in legislation and in conditions of operating water systems in the Czech Republic, there is an important impact and amendments from side of European Union which influences conditions of receiving financial means from funds of subsidies, especially Operative program of environment and others, such as European social funds.

To manage mutual relations between owners of water supply and sewage systems and its operators in the immediate future, it will be necessary to undergo selection procedures according to the conditions set by European Union. This requires apart from other things financially strong and stable business partner.

These conditions were the main reason for decision to find a strategic partner for the company VHOS, a.s. The controlling shareholders appealed several potential prospective buyers and on the basis of submitted propositions chose the most attractive ones to start mutual negotiations and sales talks.

Evaluation of the target company began on the basis of due diligence analysis accomplished by professional consulting companies. Due diligence served to confirm all material facts in regards to a sale, all financial records were reviewed. Final offer to purchase the target company was partly dependent on the results of due diligence analysis, but prospective buyer created its own specific evaluation and rating that is non-publishable know-how of the acquirer.

The final agreement on realization of company's acquisition was question of meeting of supply and demand together with reciprocally satisfactory selling price.

3.6 Acquisition process

On the basis of company evaluation and management agreement on the intended acquisition realization, concern determined conditions and set fundamental steps to acquire the company. In the concern, this procedure is ensured by technical team and specialist and has its own rules and principles. Individual steps can be briefly described as follows:

- agreement on mutual cooperation in acquisition plan evaluation
- due diligence and audit processing
- assessment of due diligence and acquisition intention
- approval of concern's top management
- preparation, discussion, negotiations and signing of contracts with shareholders
- exceptional general meeting to solve changes in the statutory bodies of the firm
- transfer of shares
- financial settlement
- start of company's functioning under the newly appointed management and concern's representatives in statutory bodies
- preparation and solution of changes and synergic effects
- preparation of consolidation, reporting according group directives and concern instructions.

4 IMPROVEMENT PROPOSALS

The connection with strong international partner can bring many benefits and contribute to increasing and sustaining of company's competitive advantage. On the other hand, company's acquisition can cause significant impacts and request significant changes that affect company's overall functioning and performance. It is necessary to be ready for all impact that change of the owner and its subsequent requirements can bring in order to adapt in the best possible way. The anticipated impacts on company's key success domains (strategy, organization structure, public, supplier and customer relations, employees, management, company culture and finance and investments) are defined and evaluated. Propositions of approaches and measures to ensure smooth change implementations are submitted

4.1 Impact on acquired company

4.1.1 Strategy

The strategy of the company should arise from the company's vision and corporate mission. Corporate strategy is characterized by long-term company's orientation. The most significant change based on the mutual strategic decision made between acquiring and acquired company is the decision to separate the building production division and to sell it as a part of a company to the third party. The decision making was based on the principal line of business of the concern and the effort of the company VHOS, a.s. that is trying to return to its basic business objective which means production and distribution of drinking water and drainage and treatment of wastewater on the first place. For acquisitions is ordinary that non-key activities are sold and property for key activities is acquired in order to strengthen key business position.

Apart from other things, important effect of this strategic decision is the departure of the redundant section of employees as a part of the agreement about sale of the part of the company without claim for redundancy payments and sale of redundant equipment and facilities. Positive impact of the sale of building production is supposition of reduction of the volume of outstanding debts, making use of a credit and

bank guarantees. This will lead to the cash flow improvement. However, the most significant impact for the company's functioning is the principal orientation back to the main and primary business objective – operating of water supply and sewage systems.

Energie AG owns majority of the share of the company which gives it the position of chairman in board of directors and in the supervisory board. Because of the importance of its share, concern will participate in other posts in board of directors as well. Management of the acquired company will be appointed with regard on the main business objective (water supply and waste water drainage) and with intention of further smooth functioning and cooperation between controlled and controlling company. Further decisive factor for the choice of occupation of managerial posts is, except for professional and technical knowledge, also position and relation of the management to the municipality and local authorities because of its daily contact with these institutions.

The control of fulfilment of strategic goal set by the concern will be performed through reporting of actual economic results confronted with planned figures. Evaluation and assessment is executed through chart and graph comments and first of all comparison of variations from the plan. Reporting becomes important part of company's functioning, additional task for managers on a different level in the company and part of day-to-day obligations. Special software for results communication will be installed and involved employees will be trained. The aim is to minimise the time for reporting to avoid employees overloading with bureaucratic tasks and emphasize tasks in their job descriptions.

New owner will definitely initiate enlargement of the acquired company's sphere and area of business activity because of its strategy of international growth. Expansion in the given domain is more than desirable and company VHOS, a.s. should expect support from concern's management.

Large international concern Energie AG, as a major owner of the company VHOS, a.s, is expected to use its capabilities, possibilities and negotiation power towards municipalities, professional institutions, ministries and state from the position of number 3 in the Czech water management market.

4.1.2 Organizational impact

Organizational structure is concentrates on formally defined distribution of authorities, source allocation (including rewards and other personal appraisals), and extent of formalization, creation and removal of working positions. Change of organizational structure must be preceded by thorough analysis of the current state and the needs of the analysed company. Any change in organizational structure has strategic importance and serious impact on the day-to-day company's functioning as well as on existence of the company.

The aim of the management of the company after the acquisition will be to simplify the organizational structure and thus increase effectiveness of the organization. Sale of the building part of the company will bring significant change in the structure and will contribute to its narrowing. Simplification of the organizational structure should clarify superior and subordinate relations and responsibilities of employees.

During organizational transformation in the company, new working teams and group across the organizational structure should be created and power of decision of executive workers should be increased. The aim is flexible organizational structure facilitating fast reaction to changing conditions. New organizational structure is expected to ease movement and grouping of employees within firm's technical divisions and departments in order to optimize company's functioning. The number of employees will be optimized with regard to personal savings and unprofitable activities should be reduced or even terminated.

Within the framework of organizational structure's optimization, certain functions and working position should be accumulated; more specialized positions and working teams can be created and employed only on the concern's level. This would lead to the essential changes in the job contents which imply necessity of the new job descriptions.

Concrete proposition of organizational structure modification are suggested in the subchapter 4.4. Proposals of improvements. For current organizational chart of the company VHOS, a.s. see Appendix No. 2.

4.1.3 Reporting and management

Efficient combination of centralization and decentralization of decision-making powers of the management of both controlling and controlled companies under the terms of complex and complicated organizational structures is critical success factor for international concern such as Energie AG. Mechanism of management and control and system of its reporting must be established before company starts functioning on the new basis.

Concern Energie AG is not influencing the way of managing the company VHOS, a.s. on the lower tactic or operational levels, the only way how it can intervene in the company's functioning is through its position in the board of directors where as a chairman can affect decision-making of the top management of the company. The owner can thus take action in decision-making only through fundamental intern control regulations or in a form of involvement in supervisory board and board of directors.

Because of the given acquired company's autonomy, top management of the company is required to report its results and activities to the controlling company. Reporting between controlled and controlling company is essential and the system of reporting is very strictly and precisely adjusted. This is an obligatory form of presenting the results to separate levels of company management and to the concern.

4.1.4 Public relations, supplier and customer relations

In the field of water management, public relations are important factor of company success. Company is trying to manage their public relations through many channels on the local level, especially regional press, public notices, and local authority's statements.

Company's approach to the owners of the infrastructure is very important; managers and employees of the company are in a daily contact with the representatives of the municipalities and local authorities. The meaning and the intent of the alliance and cooperation with Energie AG must be clearly and correctly presented to the owners

of infrastructure systems by means of concern's public relations principles. It is necessary to explain and clarify the contribution of entry of the international concern in the given region. Representatives of municipalities should be informed about new and quality technologies and facilities, processes in firm management and working procedures.

Confidence must be basic parameter of the successful cooperation not only between company and owner of the water supply and sewage systems, but also among supplier and service provides and in relations to company's customers. In the suppliers' relationships, company should use the corporate power and benefit from synergic effects that membership in the international concern enables. At the suppliers that are common with the Energie AG, company should adjust prices and payment terms in compliance with concern's conditions (for example Hawle fittings). As far as other suppliers are concerned, in order to minimize purchasing costs, company should accept concern's contractors that guarantee better prices and business conditions. This means that company will have to join concern's selection procedures and competitive tendering and accept new providers (concerning different types of material, electricity, chemicals, sanitary good, etc.)

Pointed sponsoring with new logo and new philosophy based on concern strategy is necessary to explain company's approach and positively influence public's opinion on the new company's owner. The aim is to demonstrate that even foreign owner can positively contribute to the development of the given region in the local scale. In the scope of the targeted sponsoring should be local sport facilities and associations, cultural events in the municipalities where company operates water systems.

Other important task is to positively influence relationship with local media that play important role in influencing public opinion. It is necessary to explain all benefits from company's strategic partnership with foreign investors. That includes highlighting of many positive contributions of synergic effects that follow from mutual cooperation. When favourable relation with local media is established, it is easier to pass the right message and affect on public meaning.

Owing to the concern's power and importance in the Czech market and in the field of water treatment, company can take advantage of the stronger position in the selecting procedures and it could be easier or less complicated to reach certain job orders in the region. Thanks to synergic effects, company can offers wider range of services, better technology or services of the technical teams on the concern level that are for other local competitors too expensive or technically exigent to maintain.

Inflow of foreign capital will definitely increase company's credibility. The company's good reputation should be supported by new working methods, technical and technological maturity and financial strength of the new foreign owner.

Foreign investor and owner will definitely influence company's position towards banks and other financial institutions and these trade relations are important parameters in company's day-to-day functioning. As far as receiving a credit is concerned, company can take advantage of strong business connections between Energie AG and banks, for example Reiffeisen bank which allows drawing upon a credit under the favourable conditions and interest rate.

With the change of the major owner, there must be a change in the company logo, which is now in the given region well-known, accepted and recognized. Because of the fact that company is operating in the region for 16 years and the logo has not been noticeably changed, only modernised, company has to consider the right design and especially right timing for it introducing to the public. Logo must be change in order to approximate the concern Energie AG pattern and its design must represent company's involvement in the concern. Concerning the right timing, logo should be introduced to the broad public, laic and professional in some important occasion in the company's functioning, for example on coming year of the exhibition or during celebrations of the founding of the firm. New logo should also represent the message to the public.

Complete public relation should be directed in order to familiarize public, suppliers and customer with company's new strategy. All company's forms, printed matters, advertisements and car printmaking must be updated and labelled with the new company logo.

4.1.5 Personnel impact

Employees and their personal knowledge, competences, capabilities and their loyalty are the most important assets of the company, especially in the water management companies, professionals are very well valued and company has to secure their job. For many employees which are in their positions since the company's founding in 1993 (and even before its privatisation from a state enterprise), company's acquisition and major change in firm's owner that is moreover from abroad is a huge change that bring uncertainty and distrust.

Many personnel changes are to be expected on every level of the company, operational, tactic and strategic. Changes in the company management and statutory authorities will bring new superior and subordinate relations and could lead to unclearness of the position and professional relations. Any changes in the top management have to be clearly communicated to the employees to prevent the misunderstandings in responsibilities.

Unification of the technical and specialist divisions at all level of the concern will lead to redundancy of certain employees. Their dismissal will lead to positive synergies in labour costs. Other changes in number of employees are to be expected in many organizational departments according to company needs, accumulated functions created to cover the requirements of firm's functioning will cause extra redundancies and savings in labour costs.

It is important to adopt an appropriate attitude to firms' employees which were loyal to the company for many years and will naturally be resistant to any changes. The communication among management and employees is indispensable precondition to ensure smooth change implementation and to avoid any misunderstanding and confusion leading to decrease in productivity of labour. The aim of the dialog conducted on all company levels should be to explain and prepare for oncoming changes, acquaint employees with owner's requirements and intentions and to motivate to higher productivity realization resulting in the possibility of maintaining sufficient amount of working places. The aim is to increase employee's engagement in improvement of the quality of company's day-to-day activities. Unfortunately, certain staff optimization will

be necessary (based on savings from synergic effects) and thus certain number of employees will be reduced. Employees' dismissal should be preceded by attentive performance evaluation and professional feedbacks. For the initial phase of the company's new functioning, new working positions will not be needed, on the other hand after job content redefinition new requirement could emerge.

On the basis of economic results, benchmarking should be processed to make comparison with other companies in the domain and their outcomes. Based on the given findings, new tasks in the personnel sphere should be set up for the future periods.

4.1.6 Company culture

Company culture is system of values and opinions that create positively acting informal norms of behaviour in the company. Culture characterizes internal atmosphere of the company, it is a certain intangible product that results from thinking of people in the company and activities run by the company. It is a result of the long-standing development of the company and is strongly established in the company. As far as company culture is concerned, there are prerequisites necessary to successful change implementation, such as clear purpose, enough time for the whole process which is long-term and encouragement from the side of management.

When company cultures within the strategic partnership noticeably differentiate, cultural differences can become important indicators for danger of future conflicts. One of the basic strategic goals should be convergence of both company cultures in order to approximate the way of thinking and acting of organization as a whole.

It is necessary to prepare employees of the company to changes in company's philosophy, in public relations and publicity or promotion, work culture, complete reporting, concept of work and communication with municipalities. Company should also introduce new logo in concern harmonized colours. The employees' identification with new concern organizational culture is indispensable for firm's successful functioning.

4.1.7 Finance and investments

From the financial point of view, strategic cooperation with financially strong partner can bring many advantages for the company (cheaper credit loans, savings because of synergic effects), but on the other hand, by change in the ownership, company is losing its independency and has to follow rules and instructions according to acquiring company.

The analysed company VHOS, a.s. become member of international concern and thus it has to meet financials objectives set by its controlling company. Expected financial results are formulated in a form of planned economic results, EBIT, EBITDA and based on benchmarking with other companies in the water market. Planned values come out from the financial analysis of company's recent performance, with regard to improving company's effectiveness and productivity. Management is personally involved and responsible for fulfilling financial goals of the company.

The company's return to its basic business objective (which means production and distribution of drinking water and drainage and treatment of wastewater) is connected with the modification of direction of investments. Foreign owner will definitely initiate investments in equipment modernization, launching of new technologies and will require a quality certificates and accreditations according to concern's strategy. It is assumable that new owner will emphasize importance of unification of corporate IT philosophy that will imply requirement of modernization of information technologies to simplify intercompany communication and reporting (such as prescribed type and quality of hardware and software).

Besides many financial benefits, the acquisition is indisputably connected with high initial transactional expenses that can be either temporary to bridge over the initial phase of integration to the concern's structure or can be regular relating to the new and different style of company's functioning and cooperation. Increase in costs for interpreting and translation, reporting and travel expenses is to be expected. In the long run, benefits from synergic effects are expected to exceed the introductory investments.

4.2 Acquisition contribution

Strategic partnership between acquiring concern Energie AG and acquired company VHOS, a.s. can be effective and meaningful only when this relation provides both parties with competitive advantage that would be impossible to gain independently. Both parties invest its personal, material, financial and information resources with the intention of reaching common objectives.

Despite concern's size and strength the business performance of international companies is highly dependent on the quality of information transfer among controlled companies and on the cooperation and division of labour and competences among representatives of its intern structures.

4.2.1 Contribution for acquired company VHOS, a.s.

For the acquired company VHOS, a.s., the realization of strategic acquisition is expected to bring several contributions that will increase company's competitive advantage and that are achievable only by cooperation with strong international corporation. The primary objective of acquisitions and the biggest benefit is realization of synergic effects that lead to cost savings and performance improvement. Synergies can be reached in the three main domains – financial, operating and managerial synergic effects.

- Financial synergy

Financial synergic effects emerge from risk diversification via concern's financial strength. Company can accept investments risks that would be unacceptable for smaller companies and is able to exploit more effectively capital that would not be possible in a lower concentration source with such huge economic yields. Other positive contributions are advantages obtained owing to improved financial opportunities as a consequence of company's enlargement (company's integration in the large international concern).

- Operating synergy

Transfer of know-how and experiences is important synergic effect that increases company competitiveness. By combination of capabilities of different divisions on the company level, know-how of the corporation is increased and extended. Innovative power of the company can be increase by concentration of expert in certain geographic domain or in specialized technical teams.

- Management synergy

Managerial competences can be improved when management of the controlling company has enough qualifications to contribute to effective and efficient management of processes in the acquired company. Thanks to experience of managers in Energie AG, top management of acquired company VHOS, a.s. can develop their capabilities needed to successful leading of changes in the company and its further development (for list of concrete synergies see subchapter 4.3 Synergic effects of acquisition).

Owing to realized acquisition, company can reach stronger position in the region of business activity and limit the competitors' strength in order to make its market penetration more difficult. As far as new area of business activities is concerned, concern Energie AG can exploit its political influence and position on the third largest operator in the Czech market against municipalities and other smaller competitor in order to make company's position more favourable.

Financially strong partner can also increase company's value on the market and can raise company's reputation and good name in the water industry. Company acquisition should awake interest of professional public. For the general public, by establishing concerned unified company culture, unification of advertising, giveaways and promotional materials, company can show that belongs to strong international corporation which increases its negotiation power.

Thanks to cooperation with financially strong and stable business partner company could undergo selection procedures according to the conditions set by European Union.

4.2.2 Contribution for acquiring company Energie AG

Water treatment industry, especially production and distribution of drinking water and drainage and treatment of wastewater, is one of the fields that are generally considered to be monopolistic. However the problem is more complex and it is necessary to know more facts. In a certain point of view, it is possible to agree with the statement about monopoly, but on the other hand, there is a tough competitive fight for the position on the water market. The owners announce a competitive tendering for the water systems operators and in the instant when one certain company with this competition and signs the operating contract, it gains certain property into its business activity and becomes in the given territory monopolistic supplier on drinking water.

This begs the question if the concern Energie AG is creating a certain form of monopoly on the water market in Czech Republic (possibly on the Central and Eastern European market). Energie AG cannot actually create monopoly or another market ineffective structure, because its activities and all acquisitions are tracked and authorised by Czech anti-monopolist agency (Office for Protection of Competition). Anti-monopolist office's approval was principal step in a whole acquisitions realization.

The main objective of the Energie AG activities in the Czech market is to maintain its position in the water treatment industry and if possible enlarge its area of business activity which is now feasible either through its existing concern members by expanding its production and operation into broader regions or by acquiring other Czech private companies with similar line of business with the intension of utilization of its collective effects of synergies. Nowadays, for foreign investor, it is more feasible to acquire already existing company with its region of business activity and political contacts than establish brand new company without knowledge and experience in this field. Thanks to acquisition of VHOS, a.s. company gains significant market share in the Czech Republic, position of the third biggest operator of water supply and water drainage systems in the Czech water market, more than one million of supplied inhabitant which gives the company great opportunity and good starting position to penetrate other micro-regions in the country and become according to their international strategy number one or at least first challenger on the market.

4.3 Synergetic effects of acquisition

The biggest advantage and the most positive impact of the company's acquisition and its integration in the large multinational concern Energie AG, is the possibility to profit from many synergic effects that cooperation in the concern offers. Synergic effect is positive effect of collaboration that brings superior results or qualitatively better effect than simple sum of the constituent elements. Many different uses of synergies must be taken into account.

In the first phase of joint existence, management should consider all concrete domains of business where synergic effects could possibly emerge, then all identified opportunities should be evaluated. In the field of water management industry, following synergic effect could arise from company's cooperation with concern:

- The most considerable synergic effect could be purchase for significantly favourable prices under the terms and conditions of concern. To profit from concern prices, company will have to join during supplier selection procedures the concern's competitive tendering and accept suppliers selected by concern's management. The bigger volume concern consumes, the better price for each member of the corporation can be negotiated. Synergic effect can emerge for example in the field of:
 - electric energy,
 - water management and water treatment material,
 - professional services, consulting,
 - certain types of investments (for example passenger and utility cars, machines and machineries, facilities, working tools, etc.).
- Financial synergic effects that emerge because of the partner's strong financial position and stability are one of the basic reasons of acquisition realization:
 - possibility to accept investments risks that would be unacceptable for the company without stronger business partner,
 - risk diversification,

- effective exploitation of capital due to high concentration of financial sources (higher economic yields)
 - access to financial means in a bank sector, bigger volume of credit means, easier and cheaper access to money even for a smaller company when the company is a part of a large concern,
 - better conditions for insurance, etc.
- Other less significant synergic effects emerge in the secondary activities, for example utilization of the services of unified professional divisions or teams on the concern level for instance:
 - public relation specialists, propagation,
 - production and purchase of advertising and giveaways,
 - training and education, e-learning, experience sharing.
- Similarly internal cooperation, mutual provisions of professional services and deliveries are to be expected under the terms of the concern. Different member companies can collaborate on the level of:
 - laboratory activities,
 - innovations, R & D,
 - authorizations of ISO certifications,
 - projections,
 - specialised services such as consulting and advisory services, monitoring of sewage systems, etc.
- Creation of specialized professional organizational units on the concerns level that prevent double counting of certain less exploited specialized functions.
- Utilization of capacity of under-loaded specialized technologies:
 - technologies for monitoring,
 - specialized sewage vehicles,
 - special measuring instruments, etc.)

- Gathering of specialized professional teams to solve common complex economic and technological problems on the concern level. Technical know-how can be increased by combining of capabilities of employees from different divisions and departments. Innovative power can be decreased by concentrating of experts from different companies of the concern.
- Managerial synergic effect are difficult to calculate, but are essential for company's successful function, especially in a transformation period when all fundamental changes have to be initiated and implemented by capable management and tasks have to be communicated to employees resistant to any significant changes.
- Management of Energie AG has many experience with strategic acquisitions not only internationally but also in the Czech water market, so they are qualified enough to help to overcome initial critical phase of change implementation and realization. Often, collaboration on the managerial level replaces use of external professional consultants and thus save important volume of company costs.

In the interest of costs savings and performance improvement, acquired company should take advantages of the presented synergies. In the total expression, utilization of concern's synergic effects could lead to the savings for the acquired company in the volume of millions Czech crowns. Synergies in know-how and experience sharing and managerial synergies are inestimable and have to be considered as inherent part of acquisition contribution.

Except for listed synergic effect, the increase in the company's credibility and stabilization of market position is to be expected thanks to connection with a strong business partner with financial stability.

In the long run, presented effects of synergies are expected to exceed high acquisition initial investments, if so, the realized acquisition should be considered as successful.

4.4 Proposals of improvement

From the outsider's point of view, the easiest guideline how to understand company's structure and its functioning, is organizational chart. For illustrative information about extent of the proposed changes, based on executed analysis, the original version of organizational chart is included in Appendix No. 2 and then author's proposition of altered version of organizational chart is presented in Appendix No. 3.

The sale of the building production division as a part of a company and following cancellation of organizational units Building subdivision and department Job orders is considered to be fundamental change influencing other processes in the company. Cancellation of water management subdivision Svitavy should be prepared and expected because of anticipated termination of water supply and sewage systems operation in the region of Svitavy. Other job orders could be transferred to the competences of the subdivision Moravská Třebová and Polička.

Important change could bring the sale or rental and cancellation of department laboratory. Termination of unprofitable activities and subsequent dissolution of organizational units Projecting and Retail business are considered to be less significant changes. Within the framework of company's organizational chart, station of dispatching of water treatment facilities and GIS (geographical information system) should be transferred.

On the level of overhead units, it is proposed to dissolve organizational units „Overheads division” and „Overheads department” and formation of section of technical direction and section of economical director. As far as top management in concerned, function of director's assistant should be cancelled. Moreover, management of the company should consider annulations of one post of the secretariat and interconnection of the secretariat for technical directors. Besides decrease in number of employees in secretariat, other labour costs should be taken into account and reduced. Under the terms of cost cutting, employees of filing room and manipulators of water treatment facilities should be reduced (which would lead to automation of control and manipulation in sewage water treatment plants).

Referring to middle-level management, based on prior cancellation of given organizational units, company should call off function of head of the subdivision and chief of the department and create function of head of the section of technical and economic director. As far as management of technical activities is concerned, changes in the system could bring higher autonomy in a person of independent technologist. The objective of increasing autonomy in technical section is direct professional supervision of sewage water treatment plants.

All submitted organizational changes will cause necessarily sequential measures. One of them is the least popular – personal. Based on the prior analysis, it is expected reduction of total amount of employees from 190 employees at the beginning of the acquisition process to 130 or 140 at the end after change implementations. For all proposed changes and modification of organizational chart see Appendix No. 3.

Besides changes in organizational structure, company should consider possibility of outsourcing of activities that are not principle for the business. There are two types of outsourcing that come forward – internal in the framework of concern (suitable for outsourcing of projection) and external provided by third party suppliers, such as transport, occupational safety, fire technician, security service or interpreting and translation that are new necessity related to arrival of foreign owner and the need of mutual communication and negotiations.

Optimization of other activities leads to cost savings. Special activities where professional equipment is needed and facilities that are not necessary on the daily basis can be transferred to the subsidiary company. Monitoring devices and compressive sewage vehicle Helmmers are examples of the technologies suitable for this recommendation.

Company VHOS, a.s. due to its integration into concern Energie AG becomes part of very strong and important corporation. The company will progressively accept and build elements of corporate culture of Energie AG and will be ready for further and multilateral development.

5. CONCLUSION

Water management is very lucrative industry with guaranteed revenues and under certain conditions partly contractual monopolistic domain. This attracts many competitors to the business and in the domain exist strong competition. Foreign investors can bring capital required for industry development, thus Czech water management companies often becomes strategic targets of large multinational corporations for mergers and acquisition.

The main topic of the presented master thesis was Strategic acquisition and its impact on the acquired company. The analysed acquired Czech company VHOS, a.s. is, in domain of production and distribution of drinking water and drainage and treatment of wastewater, a dominant provider in region of Svitavy and Moravská Třebová.

The paper introduces the water management in the Czech Republic. Attention was paid to introducing water industry and its legislation in order to clarify the specifics of this attractive domain. The field is nowadays facing important challenges and has to comply with European Union's legislation. The conformity with EU directives and consequent necessity of water management modernization leads Czech companies to cooperation with financially strong and stable business partners often from abroad. For analysed company VHOS, a.s. this meant change in controlling shareholder in a form of strategic acquisition. Acquiring company is large multinational holding for the water business, Energie AG Wasser.

Any acquisition cannot do without reorganization. After acquisition realization, company will face many changes and challenges. One of the basic tasks of the company is the ability to adapt to the changing conditions. The aim of the intended change is to keep the organization viable, competitive and efficient.

Analysed company VHOS, a.s. and its business objectives are described. Moreover, the paper deals with strategic analysis of the company, identifies company's strengths, weaknesses, opportunities and threat within its SWOT analysis, defines five dynamic factors that influence company's business sector in the framework of Porter's five forces analysis and within PESTEL analysis recognises external factors that affect

company's functioning, such as political, economic, social, technologic, ecological and legislative influences.

The controlling company is presented with its business objectives, intentions in the Czech water management market and demands laid on its subsidiary companies. Structure of Energie AG is introduced in order to explain and illustrate concern's growth strategy.

The thesis analyses the reasons for acquisition and process of acquisition itself and evaluates impact of the acquisition on the company's key success domains.

The most significant strategic is sale of building production and related changes in organizational structure and staffing. Removal of building production division predicts company's return to its basic business objective which means production and distribution of drinking water and drainage and treatment of wastewater on the first place. From organizational point of view company should undergo considerable changes leading to simplification of organizational structure with the aim of superior and subordinate relation clarification and increasing of company's performance and productivity. Change of controlling shareholder is related with important changes in management and statutory bodies of the company, moreover complex system of reporting of results will be installed.

Acquisition will have serious impact on public opinion. Professional and even general public pay close attention to any changes in water management. Especially acquisitions when large multinational players are entering Czech water market attract attention and increases uncertainty about future water charges among inhabitants of given region. That is why acquiring company should use all means and tools of public relations (local medias, pointed sponsoring, professional events, new company logo) to re-establish good relations with representatives of municipalities and local authorities. On the other hand, inflow of foreign capital will definitely increase company's credibility in the water management segment.

Many personnel changes are to be expected on every level of the company, especially non-favoured employees optimization in order to save labour costs.

Appropriate communication with personnel must be chosen because employees and their skills are the most important assets of the company and changes such as company's acquisition are huge interventions that bring uncertainty and distrust. Both company cultures should to be approximated in order to avoid future conflicts.

Furthermore *contributions* for both acquiring and acquired subjects are identified. From the acquired company's point of view, the most substantial contributions are effects of synergies, increase of credibility and stabilization of position in the region of business activity. As far as Energie AG is concerned, the biggest benefit of company's acquisition is expansion in the Czech water management market and its position of third biggest operator in the Czech Republic. This enables to the concern further development and penetration of the markets of Central and Eastern Europe and corporation's subsequent enlargement.

The work outcomes are *identification of synergetic effects* expected from acquisition realisation. Among the most significant are better purchase prices for certain goods and services, financial benefits (such as cheaper credit loans, risk diversification, better payment conditions, etc.), unification of professional divisions and activities (such as public relations, advertising and training), internal and mutual cooperation or managerial synergies.

Necessary changes in the organizational structure in order to avoid double counting and maximize effectiveness of company's functioning were defined, such as cessation of problematic divisions, redundant job cancellation and employees optimization, unprofitable activities dissolution, directors' secretariat consolidation, automation of controls, grouping of small organization units in larger entities, transfer of certain activities in subsidiary company and further interventions. On the basis of submitted proposals, new organization chart was created and enclosed. The main intent of the suggested measures is to ensure acquired company's subsequent successful functioning.

The submitted diploma thesis will be presented to the management of the company VHOS, a.s and hopefully some of the recommendation will be used or further develop in the real functioning of the company.

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7. LIST OF APPENDICES

Appendix No. 1: Concern structure scheme

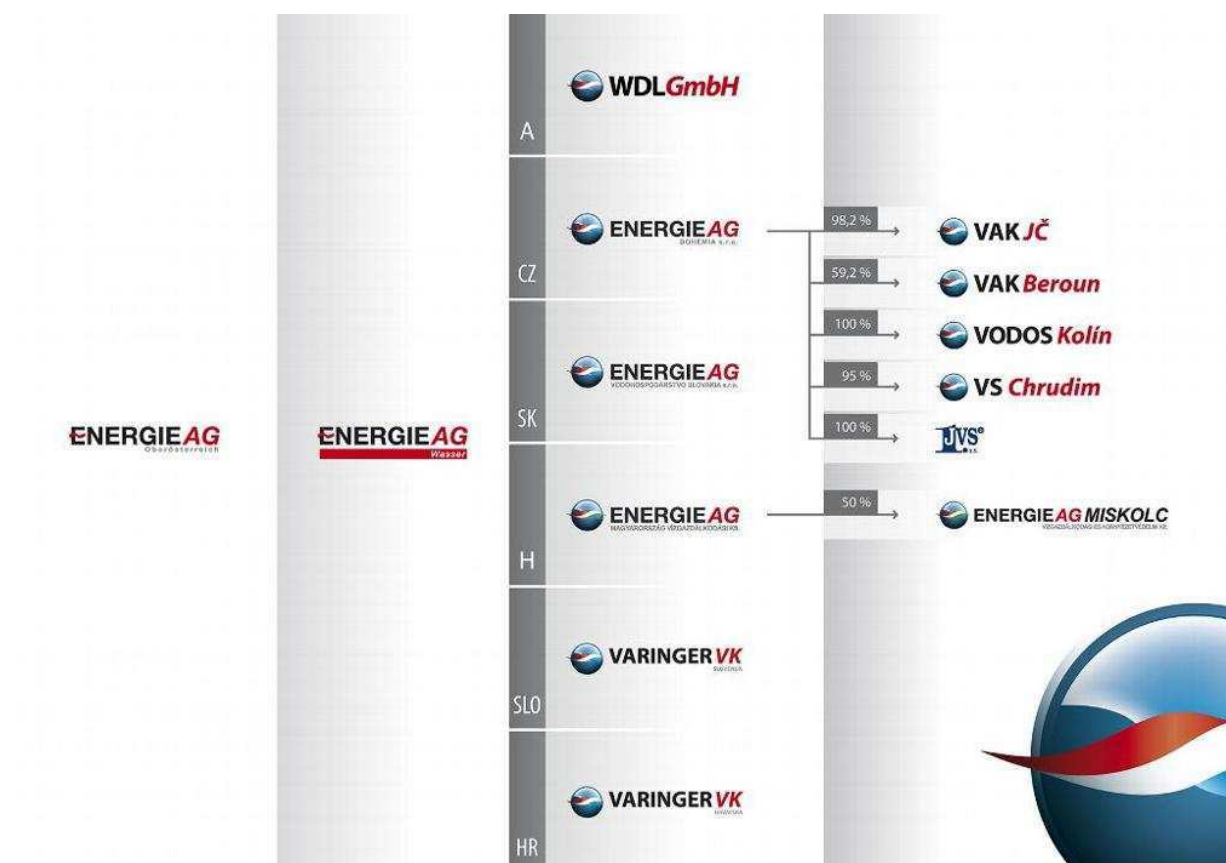
Appendix No. 2: Organizational chart - original

Appendix No. 3: Organizational chart – modified

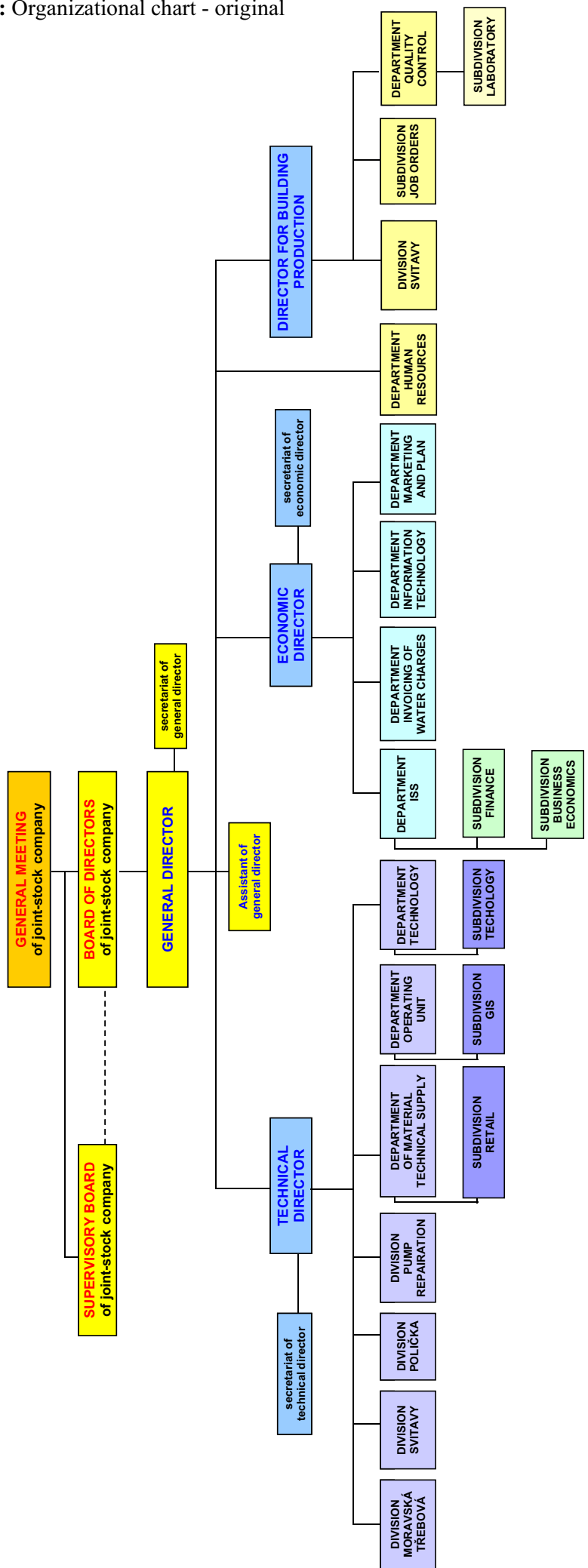
Appendix No. 1: Concern structure scheme

Energie AG Wasser pursues a value-based growth strategy in order to secure a significant long-term contribution to the result of the Energie AG Group. Growth is achieved by expanding activities throughout Austria's national territory, as well as by participating in privatization projects in the Czech Republic, Slovakia and Hungary, Slovenia and Croatia.

Moreover, further development potential is currently being explored in the countries of Central and Eastern Europe. The company is implementing of the growth strategy in the target markets and coordinates the modernization and development of its subsidiaries.



Appendix No. 2: Organizational chart - original



Appendix No. 3: Organization chart - modification

