

PROJECT REPORT

ON

**“A CRITICAL ANALYSIS OF FAILURE IN
MERGERS AND ACQUISITIONS”**

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2K11/MBA/06

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Jan - May 2013

DECLARATION

I hereby declare that the project titled “**A CRITICAL ANALYSIS OF FAILURE IN MERGERS AND ACQUISITIONS**” is the result of individual efforts and has been completed under the guidance of **Dr. Archana Singh** , Delhi School of Management, DTU.

The finding and interpretation in the report are based on the data collected by me and the report is not a reproduction of any other project submitted for similar purposes.

Anubhav Aggarwal
2011-13
2K11/MBA/06

ACKNOWLEDGEMENT

I wish to express my gratitude to my faculty guide, Dr. Archana Singh for her invaluable guidance and cooperation during the course of my dissertation. She provided me with her assistance and support whenever needed that has been instrumental in completion of this project.

The learning during the project was immense & invaluable. My work basically includes “**A CRITICAL ANALYSIS OF FAILURE IN MERGERS AND ACQUISITIONS**”. The present report is an amalgamation of my thoughts and efforts.

Towards this end, I sincerely thank my faculties for guiding me while analyzing and translating the raw data into valuable information.

Last but not the least, I express my deepest gratitude to my family who have guided me in the face of difficulties during the course of the Project Report preparation and to all, who have played their part in ensuring the timely completion of the Report.

Anubhav Aggarwal
2011-13
2K11/MBA/06

CERTIFICATE OF APPRECIATION

This to certify that the dissertation report entitled “**A CRITICAL ANALYSIS OF FAILURE IN MERGERS AND ACQUISITIONS**” submitted by the candidate, Anubhav Aggarwal in partial fulfillment of the requirement for the award of **Master of Business Administration by Delhi School Of Management, Delhi Technological University, New Delhi** is a record of the candidate’s own work carried out by him under my supervision. The matter embodied in the report is original and has not been submitted for the award of any degree.

Date:

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TABLE OF CONTENTS

| | |
|--------------------------------------------|-----------|
| Executive summary..... | 1 |
| <u>Chapter I</u> | |
| Introduction..... | 2 |
| Background..... | 2 |
| Theories of M&A..... | 4 |
| Objective of study..... | 8 |
| <u>Chapter II</u> | |
| Literature review..... | 9 |
| Theoretical frameworks..... | 10 |
| Prior research..... | 13 |
| <u>Chapter III</u> | |
| Research Methodology..... | 15 |
| Methodology..... | 16 |
| Research design..... | 17 |
| Research approach..... | 18 |
| Questionnaire development..... | 21 |
| <u>Chapter VI</u> | |
| Analysis of M&A Theory | 22 |
| Why merger fail a comprehensive model..... | 27 |

Chapter V

Analysis of Primary data.....37
 Analysis of Questionnaire results.....,,,,,,,,,,38

Chapter VI

**Critical Analysis of Secondary Data –
M&A Case Studies.....47**
 Case-studies.....48
 Daimler & Chrysler Merger48
 AOL/Time Warner.....57
 Galaxo-Wellcome-Borroughs.....65
 ABB-Plakt Merger.....67
 Sony acquisition of Columbia Pictures.....68

Chapter VII

Results and conclusion.....70
 Conclusion.....71
 Suggestion.....73
 Suggestion for future research.....74
 Concluding remarks.....75
References.....76
Appendices.....78

EXECUTIVE SUMMARY

This study focuses on the discovery and examination of the reason of failures in mergers and acquisitions. The study has identified appropriate measurement criteria for pre and post-acquisition performance and proved that Strategic Logic, Organizational behaviors and Financial aspect are the three major determinants of M&A failure & developed a comprehensive model to successfully carry out M&A activity. And improving the rate of performance by eliminating the common mistakes, which generally becomes the part of reason for failure in M&A.

The study comprises of review of relevant literature. The review is done with an identification of previous acquisition research paradigms, and the evolution of corporate acquisitions and its relationship to corporate strategies. This is followed by an identification of overall, post- acquisition performance. Analyses of prior research gave the foundation to development of an comprehensive model which was lacking in the world of M&A. Then, there is a discussion of the causes and objectives of corporate acquisitions. The next section deals with influences and problems in the overall acquisition management processes. This section also will explore details of the key factors involved in both the pre- and post-acquisition management processes. Then on the basis of Case Study analyses, Questionnaire and Prior research on M&A a Comprehensive Model is developed to carry out M&A activity and suggestions for future research is given.

Chapter-I

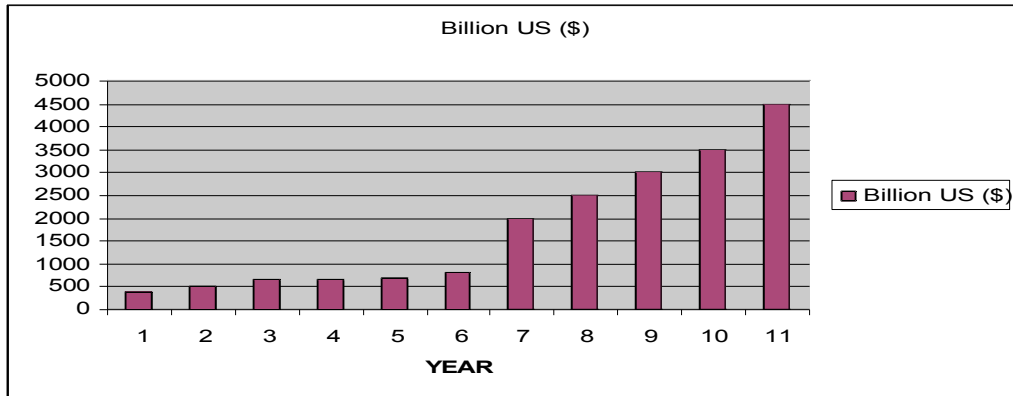
INTRODUCTION

Historical trend shows that roughly two third of mergers and acquisitions will disappoint on their own terms. This means they lose value on their stock market. In many cases mergers fail because companies try to follow their own method of doing work.

By analyzing the reason for failure in mergers and eliminating the common mistakes, rate of performance in mergers can be improved.

Discussions on the increase in the volume and value of Mergers and Acquisitions during the last decade have become commonplace in the economic and business press. Merger-and-acquisition turned faster in 2010 than at any other time during the last five years.

Merger and acquisition deals worth a total value of US\$ 2.04 billion were announced worldwide in the first nine months of 2010. This is 43% more than during the same period in 2006. It seems that more and more companies are merging and thus growing progressively larger. The following figure 1.1 supports this impression.



Source: Thomson International Securities,
Fig-1.1

80% of merger and acquisitions failed because they do not focus on other fields, common mistakes should be avoided.

M&As are not regarded as a strategy in themselves, but as an instrument with which to realize management goals and objectives. A variety of motives have been proposed for M&A activity, including: increasing shareholder wealth, creating more opportunities for managers, fostering organizational legitimacy, and responding to pressure from the acquisitions service industry. The overall objective of strategic management is to understand the conditions under which a firm could obtain superior economic performance consequently analyzed efficiency-oriented motives for M&As. Accordingly, the dominant rationale used to explain acquisition activity is that acquiring firms seek higher overall performance.

The First Wave, 1897-1904. The first merger wave occurred after the Depression of 1883, peaked between 1898 and 1902, and ended in 1904. Because the first wave involved predominantly horizontal acquisitions, this caused a surge in industrial stocks and resulted in the creation of monopolies. Some of today's huge industrial corporations originated in the first merger wave, including Du Pont, Standard Oil, General Electric, Eastman Kodak, and American Tobacco (Gaughan, 1996).

Table 1. First Merger Wave

| Year | Number of Mergers |
|-------------|--------------------------|
| 1898 | 303 |
| 1899 | 1208 |
| 1900 | 240 |
| 1901 | 423 |
| 1902 | 379 |
| 1903 | 142 |
| 1904 | 79 |
| | |

[Source: Merrill Lynch Business Brokerage and valuation, Mergerstat Review, 1989]

The Second Wave, 1916-1929. The second merger wave was termed “merging for oligopoly,” whereas the first wave was termed “merging for monopoly.” The second wave occurred from around 1925 to the end of decade, and most mergers from this period were characterized as horizontal or vertical integrations (Jemison & Sitkin, 1986). An abundant availability of capital was fueled by favorable economic conditions and lax margin requirements. The antitrust law force of the 1920s was stricter than the period of the first merger wave. With a stricter environment, the second merger wave created fewer monopolies, but more oligopolies and much vertical integration (Gaughan, 1996)

The Third Wave, 1965-1969. The 1960s, which have been termed the decade of conglomerates, saw the most controversial of the acquisition activities. The conglomerates, such as Textron, ITT, and Litton, or “empire builders,” acquired many unrelated business firms in order to reduce cyclical risks. Conglomerates not only grew rapidly, but also profitably, and top executives of these conglomerates were perceived as breaking new ground. According to Judelson (1969), these management skills facilitate a necessary unity and compatibility among a diversity of operations and acquisitions. For example, ITT acquired a variety of business firms, such as rental cars, insurance, wood pulp, and bread companies. Harold Geneen, a chairman & CEO of ITT, used a system of detailed budgeting, tight financial control, and face-to-face meetings among his general managers to build ITT into a highly diversified, but well- functioning conglomerate (Geneen, 1984). In the third wave, the most typical payment method was in stocks.

Table 2. Third Merger Wave

| Year | Number of Mergers |
|-------------|--------------------------|
| 1963 | 1,361 |
| 1964 | 1,950 |
| 1965 | 2,125 |
| 1966 | 2,377 |
| 1967 | 2,975 |
| 1968 | 4,462 |
| 1969 | 6,107 |
| 1970 | 5,152 |

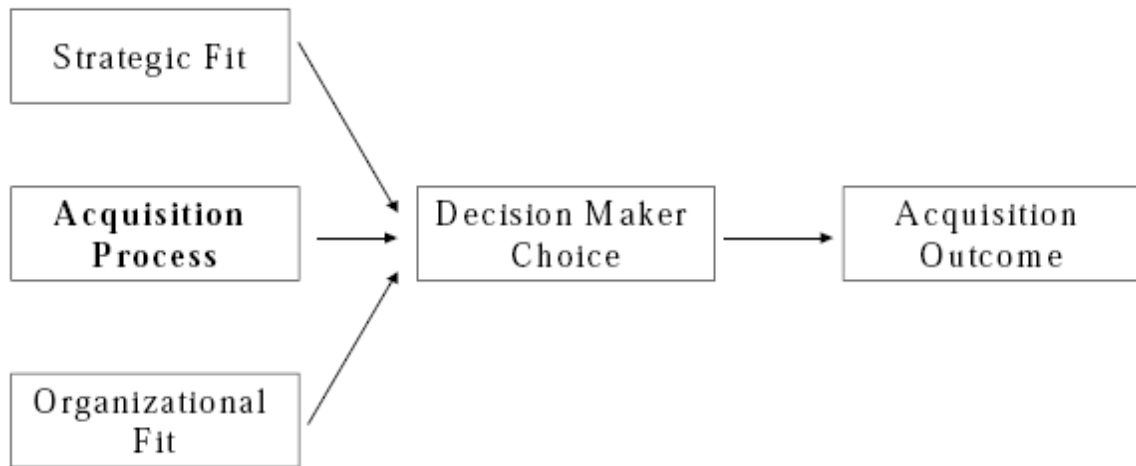
[Source: Gaughan, 1996] - *Mergers & Acquisitions Completions from 2001 to 2010*

| Year | Deals(all industries) | Value(\$billion) |
|-------------|------------------------------|-------------------------|
| 2001 | 6559 | 550 |
| 2002 | 7900 | 634 |
| 2003 | 8398 | 867 |
| 2004 | 8700 | 932 |
| 2005 | 9508 | 1032 |
| 2006 | 10965 | 1809 |
| 2007 | 11156 | 2976 |

| | | |
|------|-------|------|
| 2008 | 11923 | 3498 |
| 2009 | 12809 | 4234 |
| 2010 | 13213 | 6712 |

Source: Mergers & Acquisitions (The provided information is based on all completed mergers,

acquisitions, and divestitures priced at \$5 million and over, as well as purchases of partial interest that involve at least a 40% stake in the target company or an investment of at least \$100 million. Prior to 2001, a transaction was included if it was valued at \$1 million or more.)



Note: The process perspective emphasizes that the acquisition process is another factor, in addition to strategic fit and organizational fit, that affects acquisition outcomes

Source - Jemison and sitkin

THE OBJECTIVES OF RESEARCH STUDY

- To Study the determinants of M&A performance that have been derived from strategic management.
- To Study the determinants of M&A performance that have been derived from organizational behavior.
- To Study the determinants of M&A performance that have been derived in financial field.
- To Integrate the determinants of M&A performance studied above and develop a comprehensive Model.

Chapter-II

LITERATURE

REVIEW

Introduction

Corporate acquisitions represent part of a corporate/business strategy used by many firms to achieve various objectives. For example, acquisitions can be used to penetrate into new markets and new geographic regions, gain technical/management expertise and knowledge, or allocate capital. In order to survive and grow, business organizations often utilize mergers and acquisitions strategically. However, many poorly understood and managed acquisitions result in disappointing performance, and up to 85 percent are regarded as generally unsuccessful (Business Week, 2008; Louis, 2008). Moreover, according to Mercer Management Consulting (Cited in Smith & Hershman, 2009), in the 2009 the success rate of corporate acquisitions is barely 85 percent, and in the 2000, 77 percent of acquisition deals failed.

Strategic management researchers have primarily attempted to emphasize factors what are management controlled. For example, they have attempted to identify differences between types of diversification strategies (i.e., related vs. unrelated diversification) as a crucial factor in determining post-acquisition performance. The other areas of interest in corporate acquisition research are (1) attempts to identify differences between types of acquisition (i.e., merger vs. tender offer); and (2) attempts to identify differences

Between types of payment (i.e., cash vs. stock). On the other hand, financial economists have attempted to substantiate their unique viewpoint, the so-called “market for corporate control.” The core argument of this “market for corporate control” paradigm is that acquisition activities are viewed as “contests between competing management teams for the control of corporate entities” (p. 69, Datta et al.). One of the key arguments of the market for the corporate control paradigm is that economic value created through acquisition activities is decided by market characteristics, including its competitiveness (e.g., number of acquisition bidders and regulatory changes affecting a particular market).

However, the above two approaches have not been able to explain, exactly, the sometimes disappointing outcomes in corporate acquisitions. Thus, many researchers have begun to attempt to identify crucial variables that related to the disappointing results identified in many acquisition studies, through investigating the relationship between post-acquisition integration and post-acquisition performance. Since Kitching’s (1967) initial notion that the post-acquisition integration process is one of the most important factors for success, it was identified that value creation from acquisitions are gained not only from those strategic factors that cause realization of synergies as reflected in capital market expectations (Chatterjee, 1992; Seth, 1990), but also the processes that lead to the realization of anticipated synergistic benefits to be realized (Datta, 1991; Jemison, 1988). In sum, the key topic of this research paradigm is that one of the most crucial issues to be dealt

with in corporate acquisitions is the inquiry into how the acquirer and target firms are to be integrated in the post-acquisition management process.

To date, U.S. corporations utilize acquisitions as one of the most frequently selected instruments for growth. Sophisticated and systematic corporate acquisitions research can help acquirers' pre acquisition understanding and post-acquisition performance, as well as in achieving other acquisition objectives. However, Sirower (2006) stated that, "despite a decade of research, empirically based academic literature can offer managers no clear understanding of how to maximize the probability of success in acquisition programs". Understanding the sources and/or determinants of value creation or value loss is vital to comprehending the causes of success and failure of corporate acquisitions. This literature review not only attempts to collect and categorize previous research, but also attempts to analyze and evaluate previous works leading to this study's framework, as discussed in the preceding chapter.

Prior research on Corporate Acquisitions

When one takes a closer look at the existing literature on research on M&As' performance, three basic research streams can be discerned in respect of literature related to reasons for M&A failure or success. According to Jarillo (2006) and Hitt et al. (2005), and in keeping these works conclusion, successful acquisitions generally involve well-conceived strategy to select the target, an effective integration process and avoiding paying too high a premium. Hence, the theoretical arguments and empirical findings of those three dimensions will be further analyzed in the following sections devoted to prior research on M&A' performance.

In line with Haspeslagh and Jemison's (2001) classification, they are called the *capital market* school, the **strategy school**, as well as the **organizational behavior** school. Each of these three schools relates to topics that concern M&As, although each school is grounded in a different fundamental question, and each school approaches its question from a distinct viewpoint by means of distinctive sets of hypotheses, as well as by means of a distinctive set of methodologies. **Financial economists**, whose research is based on the capital market view, are first of all concerned with the major questions of whether M&As create value and, if so,

acquirers and target firms' stock prices throughout the period around the announcement of the M&A is that, generally speaking, acquired firms' shareholders do profit from the M&A, but acquiring firms' shareholders do not. In general, they infer that M&As create value, and that a lively market for corporate control should therefore be encouraged.

According to Hayward's work (2002), the acquisitions that tend to be more successful are between the companies that are moderately similar in business characteristics and size to one another ("...not highly similar or dissimilar to one another"). If the prior acquisitions were with small losses - no high gains or high losses - the next acquisitions have a better chance of success. Lastly, the timing of the acquisitions should be such that acquisitions are "not too temporarily close to or distant from the focal acquisitions" (Hayward, 2002).

The **management's acumen** in the overall acquisition process has a vital role in maximizing value through acquisitions. Furthermore, deriving from Quinn (2004), the acquirers must be able to constantly integrate the simultaneous incremental processes of acquisition strategy formulation and implementation. In general, there are two primary stages in the overall acquisition process, including pre-acquisition management, and post-acquisition integration management, after the acquirer has initiated its acquisition intent.

Chapter-III

RESEARCH METHODOLOGY

Research Methodology

This is a research about how the rate of performance in M&As can be improved by eliminating mistakes during M&A. Various theoretical frameworks have been critically analyzed and applied to this research project.

This chapter discusses the various aspects of the methodology employed by this research to develop and evaluate the developed model. It starts off by describing the overall scheme of the empirical research, focusing on the sampling technique, data collection and analysis. Then focuses on the approach by which the primary and the secondary data has been analyzed including why and how case studies are selected and on questionnaire development, the pretesting procedures, and the main constructs' measurement.

Research design

The empirical parts of this research are built on multiple case studies based on questionnaire with brokers and industry leaders on reasons for failure in M&A, complemented with newspaper reviews. In the following, the research design considerations for the empirical studies in this research are presented. Data collection, analysis and evaluation of the study are described separately thereafter. It concentrates on common research methods, data collection techniques.

Sampling Technique

The sampling technique is simple random sampling through various investors, industry captains and brokers.

Sample Selection

Inclusion criteria: Various investors, brokers and industry captains have been surveyed.

Data Collection & Procedure:

The data will be collected from **Secondary** sources. The PRIMARY SOURCES includes all the information that would be generated through questionnaires.

The SECONDARY SOURCES include case studies, websites, books, newspapers, magazines and any other relevant sources.

Approaches to the study:

- 1.) Analysis will be done through case studies.
- 2.) Focusing on pre stage, during stage of mergers and acquisitions.
- 3.) Analyzing the collected data from case studies, questionnaire and reach to desired conclusion.

Case studies

Why case studies?

Studies on business relationships often aim to research companies or activities embedded in a context. This calls for research methods that enable the capturing of nuances of companies, activities and their connectivity in space and time, or as expressed by Holmlund (2004):

Case studies are often used in studies on business relationships or networks for their ability to seize a detailed view on the interrelatedness of activities and actors (see e.g., Easton and Håkansson 2006; Halinen and Törnroos 2005; Dahlin, Fors and Öberg 2006). The studies aim to depict connectivity rather than study a phenomenon in isolation (cf. Bonoma 1985; Yin 1994; Dul and Hak 2008):

For this reason, with the aim of this study being to identify categories and patterns on how strategic management,

organizational behaviour and financial field impact M&As, the case study approach seemed appropriate. This enabled studying M&As in a context, although the context was set to direct customers, but where activities occurred in a wider context, for instance seen as external activities impacting actions at the integration point. The case study approach made it possible to be explorative in data collection, this in turn constructing a basis for identifying patterns and categories. Additionally, it enabled capturing details and complexities, connections between activities and drivers, and perspectives as a bulk of data describes M&A parties' and customers' perspectives on the issue.

Multiple case studies

This research uses multiple case studies. M&As are activities that may be performed for many reasons, and may also mean various degrees of integration, for example. Multiple case studies may be a means to make comparative studies (Bryman and Bell 2008), ways to replicate and thereby validate results (Yin 2004; Saunders, Lewis and Thornhill 2007), or aim to capture additional nuances of a studied phenomenon. The main focus is not to compare individual cases, but to find categories and patterns. Via multiple cases various aspects of strategic management, organizational behaviour and financial field in M&As are highlighted. The reason for choosing a multiple case study approach is to depict a wider spectrum of drivers and activities related to failure in mergers, that is, to capture additional nuances. The cases were partially chosen as they

illustrated various degrees of integration, but they also differ in other dimensions. Still, it is the various findings in terms of categories that are of foremost interest. Similar findings are found in different M&As and relationships, which help in creating categories and add on transferability assumptions of results. Comparisons are not made between M&As on a case-to-case level, rather categories are created by similar observations in the same *or* different M&As.

Choice of cases

The empirical part of this research includes five M&As, which are described from the M&A parties' and strategic, HR, financial field perspectives. The M&As represents various motives and addresses various modes of integration, and realized, as well as not accomplished, integration. They also include customers of either the acquirer or the acquired party, or both parties. The individual M&As are related to each other representing sequences reasons for failure in M&As

- **Failed Merger of AOL/Time Warner**
- **Daimler Chrysler Merger Failure**
- **Sony Acquisition of Columbia Pictures**
- **Glaxo-Wellcome-Burroughs**
- **ABB-Flakt Merger in India**

While comprising various motives and integrations, none of the cases were chosen as it had a strong strategic planning, cultural similarities, better valuation and customer focus.

DATA ANALYSIS PROCEDURE:

The data will be analyzed on few basic things:

1. To analyze determinants of strategic management, organizational behavior, financial field on M&A.
2. To analyze on what circumstances M&A will yield desired financial results.

Questionnaire Development

The questionnaire can be found in Appendix A. It is composed of a cover page and three and a half additional pages of questions. It consists of five parts: (1) Strategic factors, (2) Organizational behavior factors, (3) Financial factors, (4) M&A performance factors. More than 50 respondents (All related to the field of Finance) were surveyed.

Chapter-IV

**ANALYSIS
OF
M&A
THEORY**

The phrase **mergers and acquisitions** refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

MERGERS

A merger occurs when two or more companies combines and the resulting firm maintains the identity of one of the firms. One or more companies may merger with an existing company or they may merge to form a new company. Usually the assets and liabilities of the smaller firms are merged into those of larger firms. Merger may take two forms-

1. Merger through absorption
2. Merger through consolidation.

Absorption

Absorption is a combination of two or more companies into an existing company. All companies except one loose their identity in a merger through absorption.

Consolidation

A consolidation is a combination of two or more companies into a new company. In this form of merger all companies are legally

dissolved and a new entity is created. In consolidation the acquired company transfers its assets, liabilities and share of the acquiring company for cash or exchange of assets.

ACQUISITION

A fundamental characteristic of merger is that the acquiring company takes over the ownership of other companies and combines their operations with its own operations. An acquisition may be defined as an act of acquiring effective control by one company over the assets or management of another company without any combination of companies. A company is said to have "Acquired" a company, when one company buys another company.

Acquisitions can be either:

- Hostile
- Friendly

In case of hostile acquisitions, the company, which is to be bought, has no information about the acquisition. The company, which would be sold, is taken by surprise. In case of friendly acquisition,

the two companies cooperate with each other and settle matters related to acquisitions.

TAKEOVER

A takeover may also be defined as obtaining control over management of a company by another company.

WHAT ARE TYPES OF MERGERS?

1. Horizontal merger:

It is a merger of two or more companies that compete in the same industry. It is a merger with a direct competitor and hence expands as the firm's operations in the same industry. Horizontal mergers are designed to produce substantial economies of scale and result in decrease in the number of competitors in the industry. The merger of Tata Oil Mills Ltd. with the Hindustan lever Ltd. was a horizontal merger

2. Vertical merger:

It is a merger which takes place upon the combination of two companies which are operating in the same industry but at different

stages of production or distribution system. If a company takes over its supplier/producers of raw material, then it may result in backward integration of its activities. On the other hand, Forward integration may result if a company decides to take over the retailer or Customer Company.

3. Conglomerate merger:

These mergers involve firms engaged in unrelated type of business activities i.e. the business of two companies are not related to each other horizontally (in the sense of producing the same or competing products), nor vertically(in the sense of standing towards each other in the relationship of buyer and supplier or potential buyer and supplier).

The overall research objective of this work, which is to understand the reasons for frequent failures in M&A, can be summarized as follows: Multiple studies show that M&A performance is influenced by M&As' strategic logic

The first research objective is to integrate the most relevant determinants of M&A performance that have been derived from strategic management into a single model. Other studies have shown that the integration aspect of M&As is a very important field of research in respect of post-M&A performance (Fowler and Schmidt 1989; Chatterjee et al. 1992(a); Weber and Piskin 1996; Hitt et al. 1993; Cartwright and\ Cooper 1995; Buono and Lewis

1985, and Schein 1985). The second research objective is to integrate the most relevant determinants of M&A performance that have been derived from organizational behavior (integration) into a single model. Other studies have shown that financial aspects, especially the price paid for the M&A, are a very important field of research in respect of post-M&A performance (Ravenscraft and Scherer 1987(a); Sikora 2002; Dogra 2005, Kusewitt 1985; Eccles et al. 1999; Jarrel et al. 1988; Jensen and Ruback 1983, and Datta et al. 1992). The third research objective is to integrate the most relevant determinants of M&A performance in the financial field (especially regarding price) into a single model.

Foundation of a Comprehensive Model

A number of theories have been developed to explain M&As and their success or the lack thereof, most of which are, however, relatively limited, and while a few are complementary, others are autonomous or even conflicting. Due to their inadequateness, none of these theories capture the essence of M&As as a complex phenomenon (Hitt et al. 1998).

It is therefore obvious that the research on the determinants of M&A performance is highly fragmented. Furthermore, the various research streams are based on limited assumptions. In order to integrate valuable ideas from different perspectives, we first need to establish a common foundation of fundamental assumptions, or a frame of reference for our model. This frame of

reference has to integrate the distinctive research streams that focus on the determinants of M&A performance.

It is obvious that distinctive perspectives are based on distinctive epistemological assumptions (Raisch 2004). Although conventional approaches are thoroughly grounded in realism as well as positivism, other modern approaches are located in constructivism (Malik and Probst 1982; Nelson 1995). To improve the pragmatism as well as to further develop theories, it is therefore crucial for our research to build frameworks and lean on in-depth empirical studies (Porter 1991). Simultaneously, we are conscious that no theory can at any time try to characterize or describe the full complexity of various phenomena (McKelvey 1999). In order to establish a comprehensive model, the present study thus suggests combining different theoretical research perspectives on the determinants of M&A performance. This is the only practical approach with which to achieve our research objective: the establishment of a more integrated approach to the analysis of the determinants of post-M&A performance. A single research perspective could never by itself capture the essence of the complex phenomenon of M&A to the same extent, and thus wouldn't allow the same degree of generalization and validation.



This framework responds to the first research objective by addressing the problem of fragmentation through the integration of the most important competing research perspectives on determinants of M&A performance. The model's main hypothesis suggests that the integrated model is an improvement on any single perspective approach.

Failure can occur at any stage of process

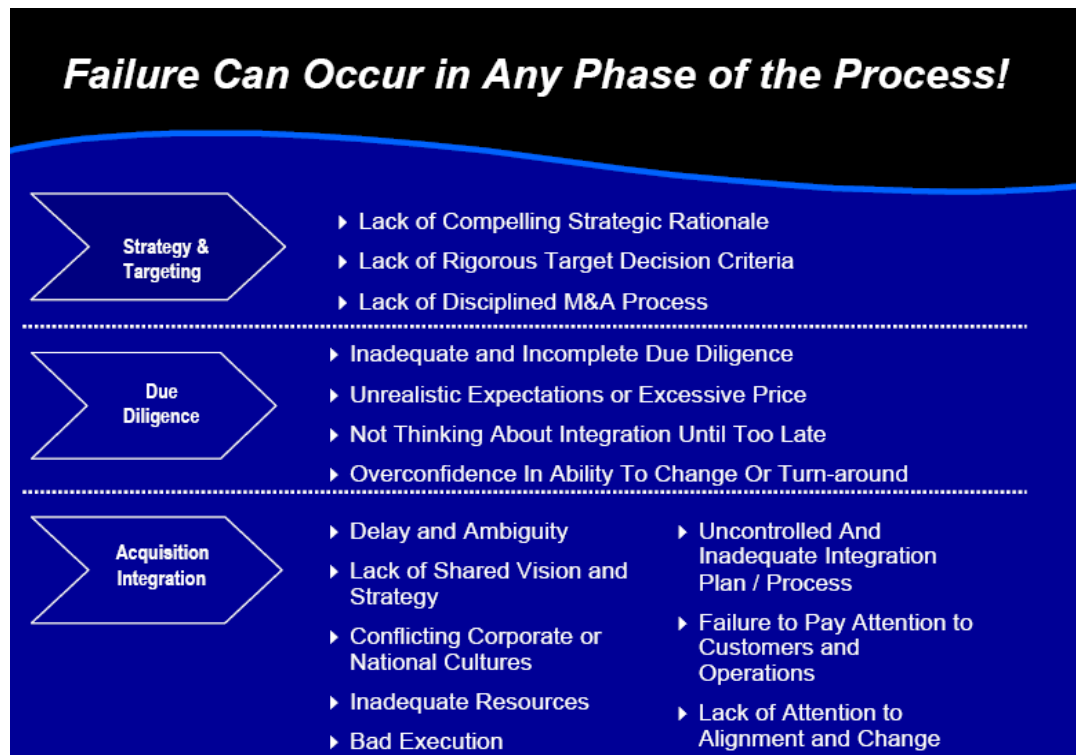


Table – 4.1
Source- Agrawal A., Jaffe J. F., Mandelker G. N

Eight principles for integration process:

- Start with strategy
- Focus on what matters most
- Move fast
- Recruit before you have to
- Over communicate
- Culture matters
- Structure the chaos
- Deal with the “ME ISSUES”

Without a clear strategy, integration will quickly dissolve into conflicting, incompatible projects

General Strategic Rationale

- Consolidation
- Overcapacity
- Product line or
- geographic expansion
- Acquire R&D / talent
- Industry convergence

Integration Strategy Framework

- Structure and staffing
- Level of integration /
- governance
- Brands / products
- Operations
- IT / service delivery
- Performance and metrics
- Process redesign
- HR alignment
- Culture and knowledge
- transfer

Communication is consistently rated the most important factor

Top reasons communications were ineffective

- Inadequate resources
- Too slow
- Inadequate senior management attention
- Not all groups were communicated to
- The messages were inconsistent
- Launched too late
- Not well planned
- Not frequent enough
- Ended too early

**“Culture issues” are rated among the top failure factors,
yet rated last in the type of information gathered during due diligence**

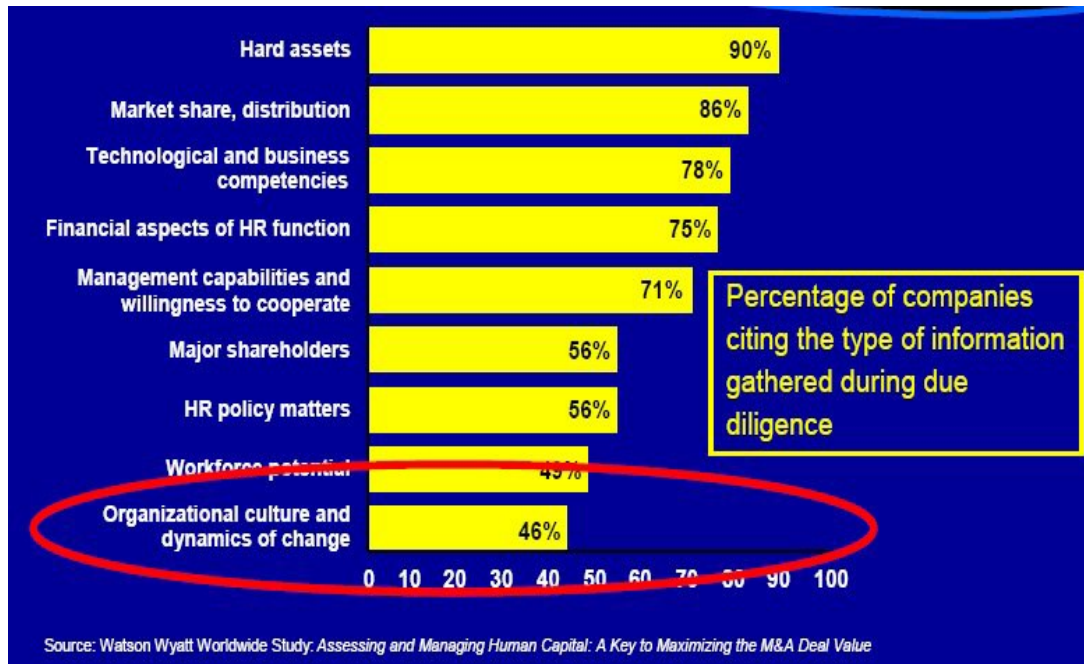


Table- 4.2
Source- Agrawal A., Jaffe J. F., Mandelker G. N

All integration activities must be coordinated through a program management approach to ‘structure the chaos’

- Prioritization
- Dedicate the
- Right integration
- Leader and team
- Resources
- Purge the
- ““Nice-to-haves””
- Business and

- Integration measures
- Execute the
- Extremely well
- Joint task forces
- To plan and execute
- Disciplined project
- Management
- And accountability

Under-managing the “me issues” will destroy value – even in the most strategic and reasonably priced deals.

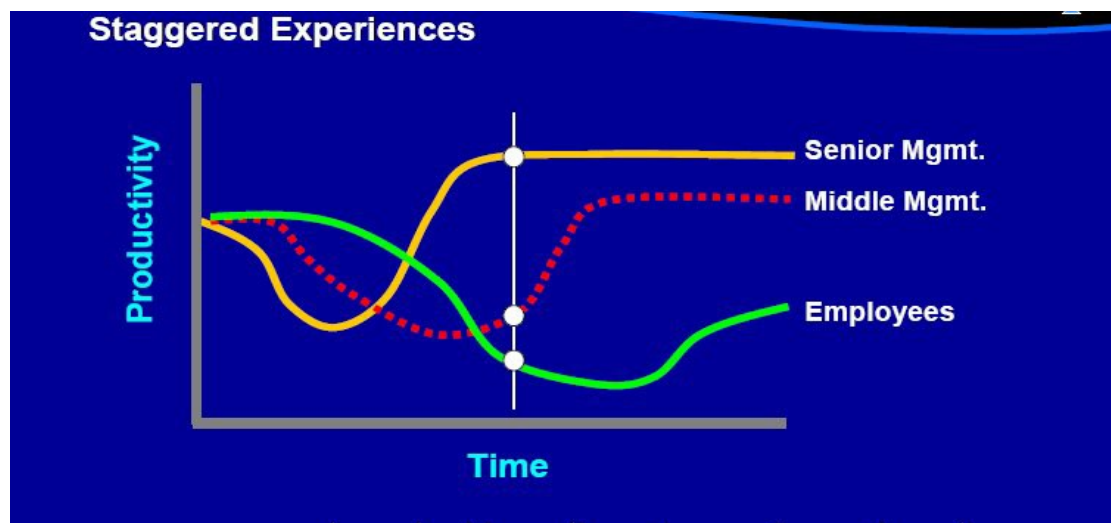


Table – 4.3, Source- Agrawal A., Jaffe J. F., Mandelker G. N

Management must address these issues from where the organization is ‘at’, not from where they are ‘at’

Integration Manager Quote: “Nothing much happens until the organization is set.”

- Organization Model
- Fair selection process
- Work force stabilizes policies and programmed

Survey results: The complexities of acquisitions require bold and decisive leadership.



Table - 4.4, Source- Agrawal A., Jaffe J. F., Mandelker G. N

Research has conclusively shown that most of the mergers fail to achieve their stated goals.

Some of the reasons identified are:

- ❖ Corporate Culture Clash
- ❖ Lack of Communication
- ❖ Loss of Key people and talent
- ❖ HR issues
- ❖ Lack of proper training
- ❖ Clashes between management
- ❖ Loss of customers due to apprehensions
- ❖ Failure to adhere to plans
- ❖ Inadequate evaluation of target

Reason for acquisitions:

- Increased market power
- Overcome entry barrier
- Cost of new product development
- Increased speed to market
- Increased diversification
- Avoid excessive competition

Chapter-V

**ANALYSIS
OF
PRIMARY DATA**

QUESTIONNAIRE ANALYSIS

Q.1) Do you think Merger fail due to HR issues?

Ans. A) Yes

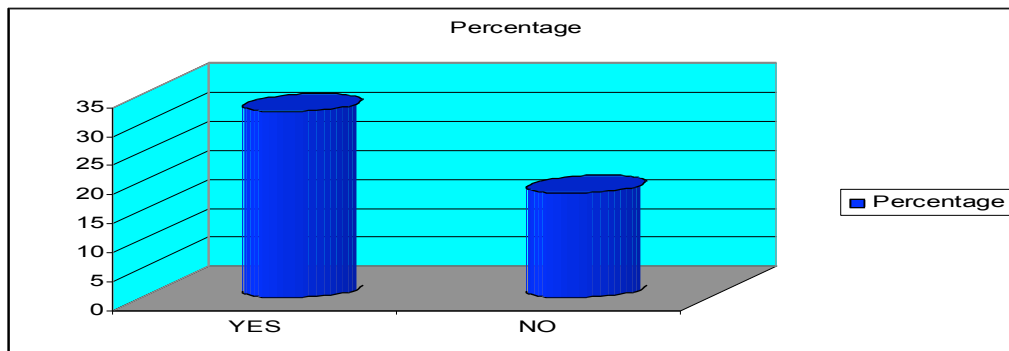
B) No

The reaction of people towards involvement of HR issues in failure merger are as follows:

| HR issues | YES | NO |
|------------|-----|----|
| Percentage | 64 | 36 |

In the survey that the researcher conducted, it could easily be concluded that HR issues are mainly concerned with failure in mergers and acquisitions and should be taken carefully at the time of merger. As data shows 64% people think due to HR issues merger failed but 36% say no.

This can be presented graphically with the form of following bar graph.



Q.2) Which method does you think is good for

valuation? Ans. A.) Book value

B.) Enterprise value

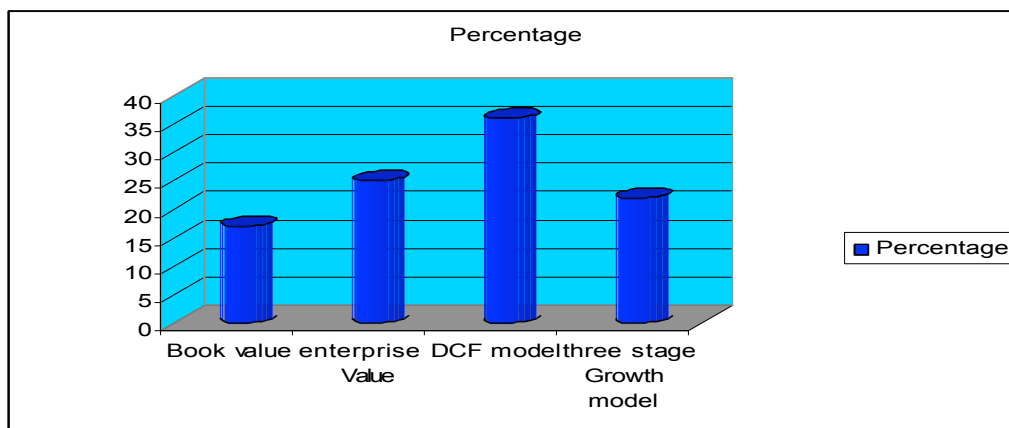
C.) DCF Model

D.) Three stage growth model

The reaction of people towards which one is good valuation for merger are as follows:

| Valuation method | Book value | Enterprise value | DCF Model | Three stage Growth |
|------------------|------------|------------------|-----------|--------------------|
| Percentage | 17 | 25 | 36 | 22 |

In the survey conducted, it could easily be concluded that DCF model is good valuation during merger, followed by Enterprise value and then three-stage growth model and people least prefer book value. This can be presented graphically with the form of following bar graph.



Q.3) Do you think Merger fail due to Cultural issues?

Ans. A) Yes

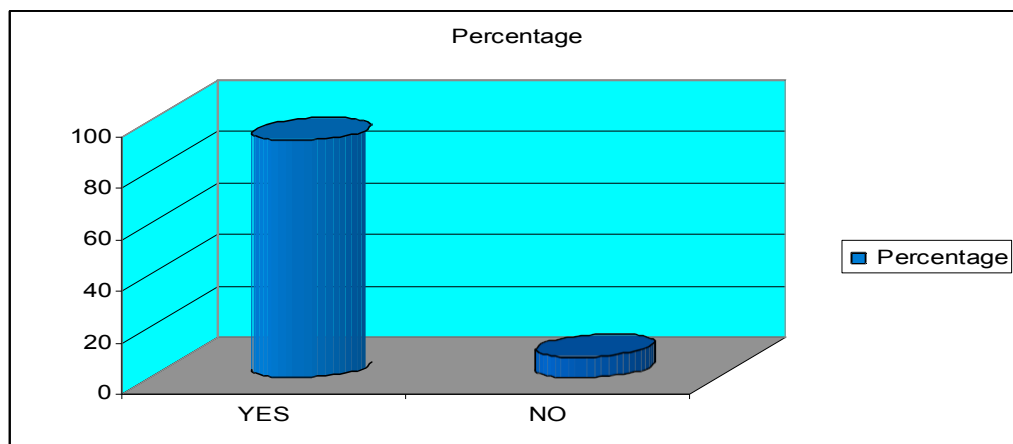
B) No

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| Cultural issues | YES | NO |
|-----------------|-----|----|
| Percentage | 92 | 8 |

In the survey conducted, it could easily be concluded that Cultural issues are mainly concerned with failure in mergers and acquisitions and should be taken carefully at the time of merger. As data shows 92% people think due to Cultural issues merger failed but 8% say no.

This can be presented graphically with the form of following bar graph.



Q.4) Do you think, paying high acquisition premium has negative impact on acquirer growth?

Ans. A) Yes

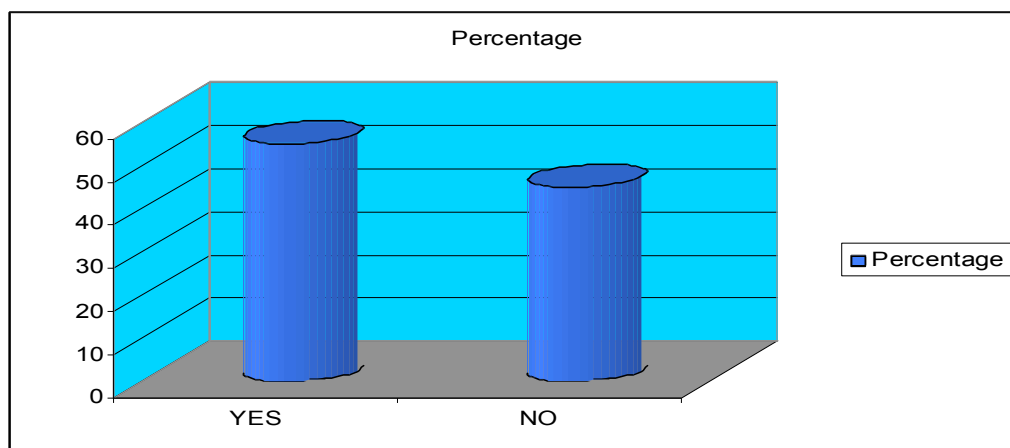
B) No

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| High premium | YES | NO |
|--------------|-----|----|
| Percentage | 55 | 45 |

In the survey that conducted, it could easily be concluded that paying high Acquisition premium are mainly concerned with failure in mergers and acquisitions and should be taken carefully at the time of merger. As data shows 55% people think yes but 45% say no.

This can be presented graphically with the form of following bar graph.



Q.5) Do you think greater the market similarity the better the performance?

Ans. A) Yes

B) No

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| Market similarities | YES | NO |
|---------------------|-----|----|
| Percentage | 87 | 13 |

In the survey conducted, it could easily be concluded that market similarities are mainly concerned with increase in performance of mergers and acquisitions. As data shows 87% people think yes but 13% say no.

acquirer? Ans. A) Friendly

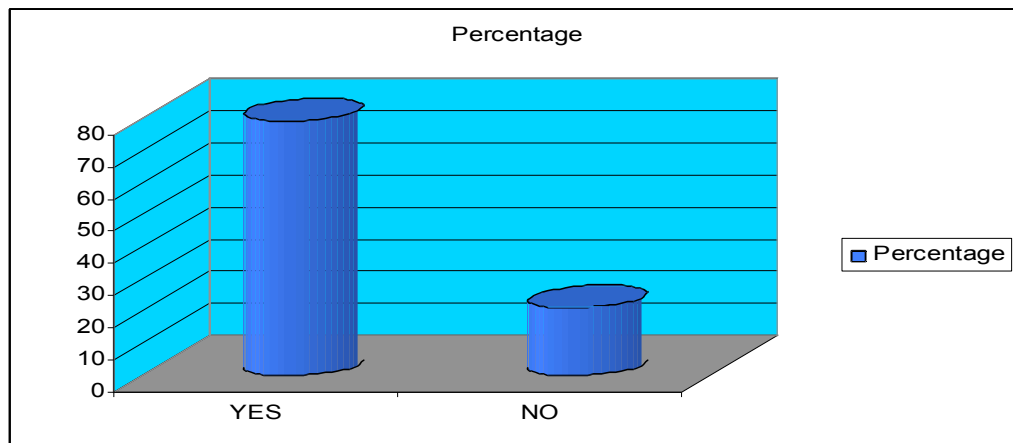
B) Hostile

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| Acquisition type | Friendly | Hostile |
|------------------|----------|---------|
| Percentage | 79 | 21 |

In the survey conducted, it could easily be concluded that friendly acquisition are mainly concerned with increase in performance of mergers and acquisitions. As data shows 79% people think friendly merger is better but 21% say Hostile.

This can be presented graphically with the form of following bar graph



Q.7) What do you think the reason for acquiring the firm?

Ans. A) Target firm is too cheap to buy

B) Target firm has crown jewels

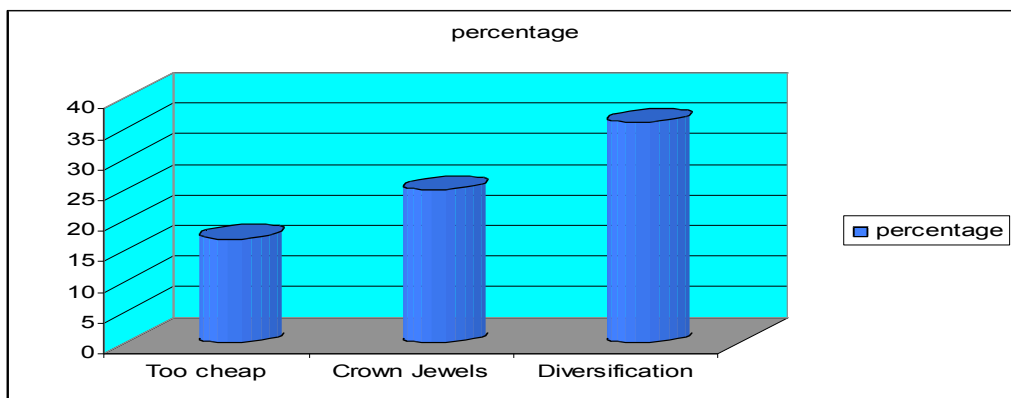
C) For diversification

The reaction of people towards which one is good valuation for merger are as follows:

| Reason for acquisition | Too cheap | Crown jewels | Diversification |
|------------------------|-----------|--------------|-----------------|
| Percentage | 29 | 36 | 35 |

In the survey conducted, it could easily be concluded that Diversification is only reason for merger, followed by Crown jewels and then 29% says merger happens only when acquiree is cheaper and book value is least preferred by people.

This can be presented graphically with the form of following bar graph



Q.8) Do you think most of merger fail because acquirer deal with larger target?

Ans. A) Yes

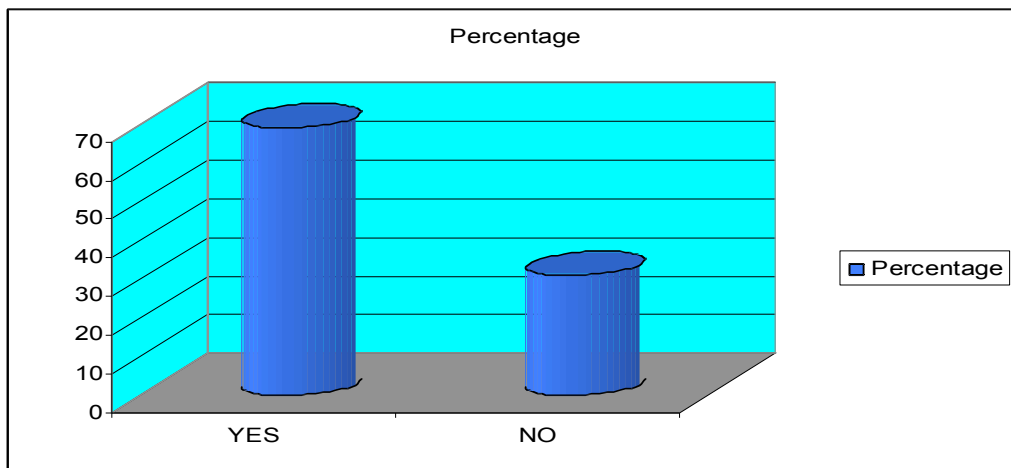
B) No

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| Larger target | YES | NO |
|---------------|-----|----|
| Percentage | 69 | 31 |

In the survey conducted, it could easily be concluded merger failed because acquirer deals with larger target. As data shows 69% people think yes but 31% say no.

This can be presented graphically with the form of following bar graph



Q.9) Do you think during pre-merger only financial team is assembled and the make “the decision”?

Ans, A) Yes

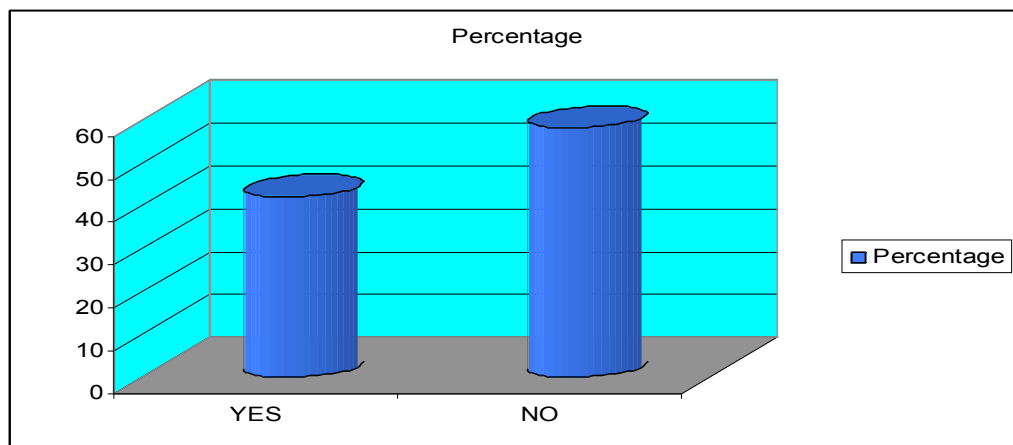
B) No

The reaction of people towards involvement of Cultural issues in failure merger are as follows:

| Financial team | YES | NO |
|----------------|-----|----|
| Percentage | 42 | 58 |

In the survey conducted, it could easily be concluded merger failed because acquirer assembled only financial team. As data shows 42% people think yes but 58% say no.

This can be presented graphically with the form of following bar graph



Chapter-VI

CRITICAL ANALYSIS OF SECONDARY DATA - M&A CASE STUDIES

The objective of this chapter is the analysis of case studies and the chapter is composed of five case studies. Aim is to generate clear as well as structured results. M&A performance is influenced by three distinct areas: Strategic logic, organizational behavior, and financial aspects. Significant effect on M&A performance of distinct determinants based on different theoretical perspectives.

CASE -I

The DaimlerChrysler Merger

Summary

In the mid-1990s, Chrysler Corporation was the most profitable automotive producer in the world. Buoyed by record light truck, van, and large sedan sales, revenues were at an all-time high. Chrysler had taken a risk in producing vehicles that captured the bold and pioneering American spirit when imports dominated the market – the Dodge Ram, the Jeep Grand Cherokee and the LH Sedan Series. In these vehicles Chrysler found an instant mass appeal, and its U.S. market share climbed to 23% in 1997. As revenues and market share rose, product development costs shrank to 2.8% of revenues - compared with 6% at Ford and 8% at General Motors¹. Chrysler's integrated design teams and noncompetitive relationships with suppliers kept costs down, while its marketing department scored success after success in gauging consumer tastes. Chrysler had always fashioned itself the bold and risk-taking underdog. It had brought itself back from the brink of bankruptcy four times since the Second World War, and its

boom bust revenue flow pattern had earned it a "comeback kid" reputation. With \$7.5 billion in cash on hand and a full range of best-selling products, Chrysler finally seemed ready in 1997 to weather the volatile American automotive business cycle on its own – without government bailouts or large-scale R&D cutbacks². Its wealth did not go unnoticed: Investor Kirk Kerkorian, a 13% shareholder, threatened to mount a takeover -- citing "the management's practice of cash hoarding" as his reason. In 2001, three years after a "merger of equals" with Daimler-Benz, the outlook is much bleaker. The financial data is sobering: Chrysler Group is on track to hemorrhage \$3 billion this year, its U.S. market share has sunk to 14%, earnings have slid by 20%, and the once independent company has been fully subordinated to Stuttgart⁴. Its key revenue generators – the minivan, the Jeep SUV, and the supercharged pickup truck – have all come under heavy competition from Toyota, Honda, General Motors and Ford. Chrysler continues to make few passenger cars of note, save the Neon and limited-release Viper and Prowler.

In the words of DaimlerChrysler CEO Jürgen Schrempp, "What happened to the dynamic, can-do cowboy culture I bought?"⁵

The Rationale for a "Merger of Equals"

On July 17, 1997, Chrysler CEO Bob Eaton walked into the auditorium at company headquarters in Auburn Hills, Michigan, and gave the speech of his life. Instead of reveling in four years of rapid growth, he warned of trouble brewing on the horizon. His urgent oratory, adapted from the nonfiction bestseller *The Perfect Storm*, a tale of three fishermen caught at the confluence of three potent storms off the Canadian coast, warned that a

triad of similar factors threatened to sink Chrysler in the coming decade. "I think," Eaton said, "there may be a perfect storm brewing around the industry today. I see a cold front, a nor'easter, and a hurricane converging on us all at once.⁶" The cold front was chronic overcapacity, the nor'easter was a retail revolution that empowered buyers, and the hurricane was a wave of environmental concerns that threatened the very existence of the internal combustion engine. "Read *The Perfect Storm*, and you will learn," Eaton implored the assembled executives, "that when a seventy-two foot boat tries to climb a hundred-foot wave and doesn't make it, it slides back down the face of the wave, out of control . . .and plunges into the trough, stern first. Sometimes the boat bobs back up. Sometimes it doesn't."⁷ "In the book, the lesson was that there's only one way to survive the perfect storm. Don't go there. Be somewhere else" Eaton said. "And don't do it alone" Daimler-Benz, meanwhile, was looking for a soul-mate. Despite a booming U.S. economy, its luxury vehicles had captured less than 1% of the American market⁹. Its vehicle production method was particularly labor intensive - requiring nearly twice as many workers per unit produced over Toyota's Lexus division. It recognized that it could benefit from an economy of scale in this capital-intensive industry. With \$2.8 billion in annual profits, remarkable efficiency, low design costs, and an extensive American dealership network, Chrysler appeared to be the perfect match. On May 7th, 1998, Eaton announced that Chrysler would merge with Daimler-Benz. Thanks to a \$37 billion stock-swap deal, the largest trans-Atlantic merger ever, Chrysler would not "do it alone" any longer¹⁰. Daimler-Benz CEO Jürgen Schrempp hailed the union as "a merger of equals, a merger of growth, and a merger of unprecedented strength". The new company, with

442,000 employees and a market capitalization approaching \$100 billion, would take advantage of synergy savings in retail sales, purchasing, distribution, product design, and research and development. When he rang the bell at the New York Stock Exchange to inaugurate trading of the new stock, DCX, Eaton predicted, "Within five years, we'll be among the Big Three automotive companies in the world". Three years later DaimlerChrysler's market capitalization stands at \$44 billion, roughly equal to the value of Daimler-Benz before the merger¹³. Its stock has been banished from the S&P 500, and Chrysler Group's share value has declined by one-third relative to pre-merger values. Unlike the Mercedes-Benz and Smart Car Division, which posted an operating profit of EUR 830 million in Q3 2000, the Chrysler Group has been losing money at an alarming rate. In the same quarter, it lost \$512 million¹⁴.

Why the Merger Failed

Culture Clash:

To the principles involved in the deal, there was no clash of cultures. "There was a remarkable meeting of the minds at the senior management level. They look like us, they talk like us, they're focused on the same things, and their command of English is impeccable. There was definitely no culture clash there.". Although DaimlerChrysler's Post-Merger Integration Team spent several million dollars on cultural sensitivity workshops for its employees on topics such as "Sexual Harassment in the American Workplace" and "German Dining Etiquette," the larger rifts in business practice and management sentiment remain unchanged. James Holden,

Chrysler president from September 1999 through November 2000, described what he saw as the "marrying up, marrying down" phenomenon. "Mercedes [was] universally perceived as the fancy, special brand, while Chrysler, Dodge, Plymouth and Jeep [were] the poorer, blue collar relations"¹⁶. This fueled an undercurrent of tension, which was amplified by the fact that American workers earned appreciably more than their German counterparts, sometimes four times as much. The dislike and distrust ran deep, with some Daimler-Benz executives publicly declaring that they "would never drive a Chrysler". "My mother drove a Plymouth, and it barely lasted two-and-a-half years," commented Mercedes-Benz division chief Jürgen Hubbert to the then Chrysler vice-chairman, pointed out to the Detroit Free Press that "The Jeep Grand Cherokee earned much higher consumer satisfaction ratings than the Mercedes M-Class".

With such words flying across public news channels, it seemed quite apparent that culture clash has been eroding the anticipated synergy savings. Much of this clash was intrinsic to a union between two companies which had such different wage structures, corporate hierarchies and values. At a deeper level, the problem was specific to this union: Chrysler and Daimler-Benz's brand images were founded upon diametrically opposite premises. Chrysler's image was one of American excess, and its brand value lay in its assertiveness and risk-taking cowboy aura, all produced within a cost-controlled atmosphere. Mercedes-Benz, in contrast, exuded disciplined German engineering coupled with uncompromising quality.

These two sets of brands, were they ever to share platforms or features, would have lost their intrinsic value. Thus the culture clash seemed to exist

as much between products as it did among employees. Distribution and retail sales systems had largely remained separate as well, owing generally to brand bias. Mercedes-Benz dealers, in particular, had proven averse to including Chrysler vehicles in their retail product offerings. The logic had been to protect the sanctity of the Mercedes brand as a hallmark of uncompromising quality. This had certainly hindered the Chrysler Group's market penetration in Europe, where market share remained stagnant 2%¹⁹. Potentially profitable vehicles such as the Dodge Neon and the Jeep Grand Cherokee had been sidelined in favor of the less-cost-effective and troubled Mercedes A-Class compact and M-Class SUV, respectively.

The A-Class, a 95 hp, 12 foot long compact with an MSRP of approximately \$20,000, competed in Europe against similar vehicles sold by Opel, Volkswagen, Renault and Fiat for approximately \$9,000-\$16,000. Consumers who ordinarily would have paid a premium for Mercedes' engineering and safety record had been disappointed by the A-Class – which failed an emergency maneuver test conducted by a Swedish television station in 1999²⁰. The A-Class appeared both overpriced and under-engineered for the highly competitive European compact market. The Dodge Neon, in contrast, could have competed more effectively in this segment with an approximate price of \$13,000, similar mechanical specifications, and a record of reliability. Brand bias, however, had prevented this scenario from becoming reality.

Differing product development philosophies continued to hamper joint purchasing and manufacturing efforts as well. Daimler-Benz remained committed to its founding credo of "quality at any cost", while Chrysler

aimed to produce price-targeted vehicles. This resulted in a fundamental disconnect in supply-procurement tactics and factory staffing requirements. Upon visiting the Jeep factory in Graz, Austria, Hubbert proclaimed: "If we are to produce the M-Class here as well, we will need to create a separate quality control section and double the number of line workers. It simply can't be built to the same specifications as a Jeep²¹". The M-Class was eventually built in Graz, but not without an expensive round of retooling and hiring to meet Hubbert's manufacturing standards.

Mismanagement:

In autumn 2000, DaimlerChrysler CEO Jürgen Schrempp let it be known to the world – via the German financial daily *Handelsblatt* - that he had always intended Chrysler Group to be a mere subsidiary of DaimlerChrysler. "The Merger of Equals statement was necessary in order to earn the support of Chrysler's workers and the American public, but it was never reality"²². This statement was relayed to the English-speaking world by the *Financial Times* the day after the original news broke in Germany. To be sure, it was apparent from Day One that Daimler-Benz was the majority shareholder in the conglomerate. It controlled the majority of seats on the Supervisory Board; yet the DaimlerChrysler name and two parallel management structures under co-CEOs at separate headquarters lent credence to the "merger of equals" notion. This much, however, is clear: Jürgen Schrempp and Bob Eaton did not follow a coordinated course of action in determining Chrysler's fate. During 1998-2001, Chrysler was neither taken over nor granted equal status. It floated in a no man's land in between. The managers who had built Chrysler's "cowboy bravado" were no more. Some remained

on staff, feeling withdrawn, ineffective and eclipsed by the Germans in Stuttgart. Others left for a more promising future at G.M. or Ford. The American dynamism faded under subtle German pressure, but the Germans were not strong enough to impose their own managers. According to a Daimler-Benz executive, "Eaton went weeks without speaking with Jürgen [Schrempp].

He preferred to maintain lower-level contact. . Jürgen, meanwhile, was afraid of being labeled a takeover artist. He left Chrysler alone for too long". Why? According to one well-placed senior executive at Chrysler, "Jurgen Schremp looked at Chrysler's past success and told himself there is no point in trying to smash these two companies together. Some stuff was pulled together but they said operationally let's let the Chrysler guys continue to run it because they have done a great job in the past. What they didn't take into account was that immediately prior to the consummation of the merger or shortly thereafter, enough of the key members of that former Chrysler management team left. They saw the forest but they didn't realize that removing four or five key trees was going to radically change the eco system in that forest. It was a misjudgment. As a result, Chrysler sat in apathy, waiting for Daimler's next move - a move which came too late -- eleven months after Eaton's retirement -- when Schrempp installed a German management team on November 17, 2000. During that interval, Chrysler bled cash. After the merger, many people in Auburn Hills observed that co-CEO Bob Eaton appeared withdrawn, detached, and somewhat dispassionate about the company he continued to run.

Even Schrempp encouraged him to "act like a co-chairman and step up to the podium..." to no avail. Two valuable vice-presidents, engineer Chris Theodore and manufacturing specialist Shamel Rushwin, left for jobs at Ford²⁴. According to then-president Peter Stallkamp, Eaton "had really checked-out about a year before he left. . .The managers feared for their careers, and in the absence of assurance, they assumed the worst. There were a good eighteen months when we were being hollowed out from the core by the Germans' inaction and our own paralysis".

During the period 1998-2000, the Honda Odyssey came to rival the Dodge Caravan, the Toyota Tundra threatened the Dodge Ram, and SUVs from GM, Ford, Nissan and Toyota attacked Jeep's market share. Chrysler responded with little innovations, and competitive price reductions only began in Q2 2001. Its traditional dominance in the SUV and light truck market had been challenged, and it had not adequately responded. While Chrysler's management languished, the market continued to function, and the industry left Chrysler in the dust. Synergy savings are only achieved when two companies can produce and distribute their wares more efficiently than when they were apart. Owing to culture clash and a poorly integrated management structure, DaimlerChrysler is unable to accomplish what its forbears took for granted three years ago: profitable automotive production.

CASE – II

The AOL/Time Warner Merger

Executive Summary

The merger of AOL and Time Warner has been judged to be a merger between two companies in fear. AOL feared that its business model needed continual adaptation to a changing Internet and wanted to ensure broadband access. AOL needed to continue its growth by acquisition strategy in order to justify its high market capitalization. Time Warner feared that its outdated network of traditional media outlets (television broadcasting, publishing, movies, magazines, and newspapers) needed a facelift. Time Warner believed that for it to remain competitive it needed an immediate injection into the Internet.

But mergers out of fear are rarely successful. The valuation that analysts predicted (above \$90 per share) never persisted as the two companies have not been able to fully integrate. AOL and Time Warner have not been able to formulate a strategy which can help the combined company move forward, the managers have failed to win the support of all divisions, and the dynamics and technologies of the internet have changed and have left AOL behind.

Market Situation Prior Merger

In 2000 it was believed that future media growth motor would be the from the “new” media sector. Traditional and new media channels were rapidly converging into common media platforms. The industry believed that companies operating in one media channel only, either the traditional or the new media could not play a significant role in the future or, even worse, would vanish. Successful companies will harness the Internet’s nearly infinite customer reach and provide high-quality media contents, such as entertainment and information to its’ worldwide customers.

The companied merged in January 2000, before the bursting of the over-valuations of internet companies. Therefore, from a standpoint of Time Warner at that time, the high expectations to regain growth momentum from a leading Internet player such as AOL seemed justified. Supernormal growth period growth rates were in hindsight over inflated, but followed the subscription growth of AOL and other online players (Exhibits 6-17). The later downward spiral of AOL Time Warner’s development reflects the loss in confidence of the market in the Internet and is somewhat symbolic for the burst of the Internet bubble.

Exhibit 5 shows a steady increase in stock prices of AOL until 1999. It was only interrupted by a brief phase of decline in 1996, which coincides with the purchase of Turner Broadcasting Systems. In 1999, however, it began to remain steadily fluctuating around a mean value of about \$60. This may indicate that the competitive advantage of AOL was not sustainable any

more and may indicate the financial translation of the rationale behind the merger.

Reasons for the Merger

For Warner, merging with an existing company was a more effective way to distribute its contents via online channels as opposed to building its own capabilities. Creating an own Internet branch would be both very costly and time intensive. The combination of Time Warner's broadband systems, media contents and subscriber base would create significant synergies and strategic advantages with AOL's online brand, Internet infrastructure and own subscriber base of 30 million customers. The mostly untapped AOL subscriber base and the e-platform, which promises new service and revenue opportunities, and cross-marketing opportunities, will provide growth potential. The combination of two global players will further increase scale and scope of the new company thus strengthening its international position. As already mentioned, Time Warner intends to combine its media contents with the new distribution possibilities AOL's strong Internet presence provides. The high-quality contents in combination with interactive services available on the internet at any time the customer desires will result in increased benefits for consumers and translates into revenue growth.

Reasons for Merger

The reason for the merger was to allow each of the companies to get a piece of the Internet future which each of the companies could not provide for individually. For AOL, the merger was about technology: America Online was the dominant leader in what might be termed the sort of first stage of Internet usage, that is, people was going on-line for e-mail and Web surfing.

But AOL did not have a strategy for the next generation of Internet users who would require broadband access (where access to the Internet would be much faster and would allow users the ability to complete much more complicated tasks like media downloading, telephony, gaming, virtual offices, etc):

On the surface, what happened Monday is simple: AOL, the leading provider of dialup Internet service, needed a strategy for moving its customers forward into the much-ballyhooed world of high-speed "broadband" access, controlled by telephone companies and cable TV operators (such as Time Warner). Time Warner, the ungainly media conglomerate, needed a credible way to salvage its Internet strategy after a decade of failure in the digital realm -- from the colossal flop of its "Full Service Network" interactive television experiment to the spectacular flameout of its misconceived Pathfinder Web portal.

Put the two companies together and you get something like Monday morning's press conference announcing the deal: A torrent of references to "synergy," "one plus one equals three," "the media value chain," "the convergence of media, entertainment and communications," and "new benefits to consumers." You also get an avalanche of hype: One analyst declared, "It is probably the most significant development in the Internet business world to date."¹

For AOL's Board of Directors, the portfolio of brands created with the merger of the two companies would cover the full spectrum of media entertainment and information, and this would led the company increase the revenues at the three major areas that had AOL: subscriptions, advertising and e-commerce and content. They believed that Time Warner's cable

systems would expand the broadband delivery systems for AOL computer service's technology and, over all, they assured that the new business would be benefited from huge operating synergies (cross-promotion, more efficiency in marketing, cost reductions in launching and operating new technologies) as well as major new business opportunities.

AOL's subscriber base and advertising revenues were growing exponentially until the crash of 2000 occurred. AOL suffered increasing demand from Wall Street to generate big advertising deals to meet rising expectations. When this failed, AOL resorted to unconventional methods to boost its financial numbers (utilizing legal action for an ad deal, booking E-Bay ad revenues as their own). AOL stock was severely overvalued and this merger was the only way to prevent a collapse in valuation. AOL, as the new corporate giant created by the Internet boom, was using its sky-high value of its stock to acquire an older Fortune 500 company. AOL's high market capitalization relative to that of Time Warner made the acquisition possible.

Reasons for Failure

Viewing back upon the merger several reasons can be found why the merger did not work out as the former managements had hoped it would. One of the main reasons is that AOL basically never was an equal counterpart to Time Warner. At the time of the merger AOL's stocks were overvalued mainly due to the Internet bubble⁴. During the 1990 many upcoming Internet start-ups, the so-called dotcoms, were tremendously overvalued and to some extent without ever having made profit worth as much as established blue-chip companies because investors believed in their potential. Indeed only a few companies survived the "new economy"-era and are now established

companies (e.g. Amazon or EBay). Since, however, AOL according to its stock price was worth as much as Time Warner at the time of the merger they got the same voting rights and power. There still exists much controversy around Case's profit taking from the sale of his shares (Exhibit 4):

The fact that Case sold a major part of his AOL stock soon after the merger was announced in January 2000 (when the price of the stock was high) and made an estimated profit of \$ 160 million evoked suspicion and anger among shareholders. They thought that Case was aware of the fate of the merger and accused him of making money, when the time was right, at the expense of the shareholders.⁵

Yet, today AOL is certainly less worth than Time Warner. So, from today's perspective AOL received a too high price for its share or Time Warner paid too much for what it received in return. The stock price of AOL Time Warner fell from its peak of almost 90 US\$ in 2001 down to almost 10 US\$ in 2003 and right now is just at 13 US\$. Also, since AOL turned out to be an unequal partner AOL Time Warner changed its name back to just Time Warner in the mean time and almost the whole AOL board has been replaced while still many of Time Warner's directors are in charge.⁶

Another reason why the merger failed is that in the time after the merger AOL and Time Warner failed to implement their visions and communicate them – e.g. marketing Time Warner content through all channels possible. Additionally, they even lacked the ability to recognize new trends in the digital industry. One trend apart from broadband Internet was Internet telephony or Voice over IP (VoIP). AOL Time Warner as the main player in the digital revolution – as they defined themselves – hardly took notice of

this trend and they failed to build a business model for that. Secondly, they were not able to promote their idea of a combined music-platform. Again, it was another company to gain the first mover advantage in this area (Apple with their introduction of the iTunes Music Store). And thirdly, one of the main trends AOL Time Warner missed in the recent years was the importance of highly personalized web services. Examples are MySpace.com, a platform for everyone to express oneself, which was bought by Rupert Murdoch's News Corp. last year for about \$580 million⁷ or Snapfish, a service that allows everyone to store pictures online and make them publicly available. AOL Time Warner in contrast believed that delivering serious news and facts was more promising than highly personalized content.

A new thread came up for AOL in the recent years. AOL used to be the most important Internet Service Provider in many countries. However, they failed to offer broadband access as soon as possible. So it was the local phone companies to have the first mover advantage . As a consequence of this not only lost AOL subscribers to their Internet service but also their portal lost importance leading to a loss in opportunity to promote AOL Time Warner content¹⁰ . As a further consequence income from advertising is decreasing.¹¹

Furthermore, the CEOs at the time of the merger, Mr. Case and Mr. Levin, still today regard themselves as being the wrong persons for having done the job at that time. In an interview Case states that not only him but also the whole board of directors in each of the companies really believed in the success of his idea; yet he admits that he was the one to blame for the failure since it was his idea. Indeed at that time AOL needed Time Warner's broadband and cable business as a strong partner for further growth¹² . In

contrast, it is to question whether Time Warner really needed AOL or whether a strategic partnership wouldn't have been the better choice¹³. One major mistake seems to have been in the assumptions about the merger itself. Time Warner was thinking it was they to mainly benefit from the merger since they could access AOL's media channels and promote their content through it. AOL in contrast was the party that gained most through the merger because they were able to use Time Warner's broadband cable network and extend their broadband business.

A final reason for the failure is the fact that AOL and Time Warner were not able to encourage a climate within the companies to initiate the synergies that were proposed. As Peter S. Fader, a Wharton marketing professor, says it is impossible to manufacture synergies, oftentimes they are just nothing more than serendipities.¹⁵ A clear and concise strategy never emerged from the two companies:

Wharton business and public policy professor Gerald Faulhaber has heard this spiel before. "AOL is an enormous asset, but it has a management problem," says Faulhaber. "AOL has the audience, but Time Warner has demonstrated that it doesn't know how to take advantage of it." There are plenty of unanswered questions about AOL, Faulhaber adds. For example, what does AOL have to become in the future? What can AOL create that's unique? How can it garner profits from its instant messaging dominance? How will it convince its customers to stick with AOL as broadband Internet access grows in popularity?

Even though there was hope for a complete integration of the companies and the ability of both companies to leverage the others strengths, this never

materialized..

CASE-III

GLAXO-WELLCOME-BURROUGHS

Glaxo and Wellcome-Burroughs decided to merge in 1996. The Indian arms however couldn't merge in the last seven years because of high pay differential between workers of Glaxo and Wellcome in India. The workers of Wellcome were offered a one time compensation of Rs. 2 lakhs in 1998, which they refused. Further the VRS scheme launched by the firm evoked very tepid response. Since 1997 the firms have been working as independent subsidiaries in India.

The merger of SmithKline Beecham and Glaxo Wellcome is the second attempt to bring together the UK's two leading pharmaceutical companies.

Two years ago, the two companies also held merger talks, but the plan broke down because of a clash who would run the merged company.

The UK's highest paid executive, Jan Leschly of SmithKline, was unwilling to play second fiddle to Glaxo's dynamic chairman, Richard Sykes.

This time round the companies are taking no chances.

Mr. Leschly, who is set to retire this year, will be well-rewarded for stepping down early, while his deputy, Jean-Pierre Garnier, will become chief executive.

Meanwhile, Richard Sykes, who will become chairman of the merged group, is likely to stand down in 2002, when he reaches 60, to take up an academic post.

Merger mania

At the time, the merger talks were precipitated by the news that SmithKline Beecham was in merger talks with American Home Products, a US pharmaceutical company - a deal which would have led to SmithKline overtaking Glaxo Wellcome as the UK's biggest drugs company.

This time, it was another jilting of the unlucky American Home Products that gave urgency to the merger. On Friday, Warner Lambert said it was abandoning its planned merger with AHP, instead agreeing to enter into talks for a link-up with Pfizer, which could create the biggest drugs company in the world. Not wanting to be overshadowed, Glaxo and SmithKline decided to accelerate their merger schedule.

Troubled history

Both companies are themselves products of huge mergers, as the UK Pharmaceuticals industry continues to consolidate.

Glaxo Wellcome was created in 1995, in what was then the UK's largest merger, in a £9bn deal. SmithKline Beecham was the product of a merger between a US drugs company with Beecham's, one of the oldest UK drugs companies that specialized in over-the-counter remedies, in 1989. At one

time they were bitter rivals, as Glaxo's anti-ulcer drug Zantac pushed SmithKline's Tagamet off pharmacy shelves.

The pace of mergers in the pharmaceuticals industry accelerated in 1998.

The UK's other major pharmaceutical company, Zeneca, a spin-off of chemicals company ICI, tied up with Sweden's Astra. Nor is the trend confined to the UK. On Continental Europe, two of the biggest chemicals companies, Hoechst and Rhone Poulenc, have just merged their pharmaceuticals business to form Aventis.

And Sweden's Pharmacia, which had earlier merged with Upjohn of the US, has just swallowed up Monsanto, famous for its production of GM seeds, but which also has a strong drugs business. That merger was worth \$52bn (£32bn), and only created the seventh largest drugs group - a sign of how rapidly the value of drugs companies has gone up in the merger boom.

CASE-IV

ABB-Flakt Merger in India

This is a case of a domestic acquisition of Flakt by ABB in India pursuant to the cross-border (Swiss-Swedish) merger that happened at their parent level. Analyses reveal that valuations of both the companies were not done meticulously and corresponding swap ratio was biased. Synergy perceived

was hardly achieved. The gain on merger was less than the capital market (BSE SENSEX) growth. Shareholders of erstwhile Flakt India lost heavily.

CASE - V

Sony acquisition of Columbia pictures

Sony: The Early Years and the Betamax

Masura Ibuka and Akio Morita founded Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering Company) in 1946, with a mission to be “a clever company that would make new high technology products in ingenious ways.”² With the development of the transistor, the cassette tape, and the pocket-sized radio by 1957, the company renamed itself Sony, from the Latin word sonus meaning "sound." In 1967, Sony formed a joint venture with CBS Records to manufacture and sell records in Japan. Norio Ohga, an opera singer by training, was selected to head the CBS/Sony Group, quickly growing the joint venture into the largest record company in Japan.

When Sony was preparing to launch the Betamax home videocassette recorder in 1974, it invited representatives from rival consumer electronics companies to preview the new technology but did not accept any advice or

offers for joint-development. Two years later, Sony was surprised to learn that Matsushita subsidiary JVC was preparing to introduce its own Video Home System (VHS) to compete with Betamax. While JVC licensed VHS to other electronics firms, Sony chose to keep its Betamax format to itself – and its prices even higher – insisting that Betamax was superior in quality. When the less expensive VHS started to take hold, motion picture studios began to release a larger number of their library titles on the format. The more expensive Betamax failed despite its technological to release a larger number of their library titles on the format.

Reason for failure:

- Vastly different corporate culture.
- Poor understanding of movie business
- Legal issues
- Japanese recession

Chapter-VII

RESULTS AND CONCLUSIONS

Conclusions

This final chapter presents a summary of the study's results together with their contributions. In a first step, the different findings are summarized and discussed. Thereafter the intrinsic limitations of the present research are discussed. Directions for future research will also be presented, followed by concluding comments.

Discussions of the major findings

The overall objective of this research was to develop and empirically confirm a comprehensive research framework that bridges rival perspectives and promotes a modern understanding of factors underlying M&A performance.

The first important step towards this objective was the development of a common frame of reference that spans conflicting theoretical assumptions from different perspectives. On this basis, a framework was proposed with which to understand the origins of M&A performance better and address the problem of fragmentation by integrating the most important competing perspectives in respect of studies on M&A performance.

In this research, strategic planning, organizational behavior and financial perspective are referred to as potentially long term, but more importantly; they are the construct of both parties', suppliers' and customers', voluntary participation. Customers as well as suppliers are actors, also meaning that one party cannot control the other. This

reasoning leads to a first ‘paradox’ about M&As; M&As may make business partners reconsider their relationships with the M&A parties, and lead to changes in or of relationships

In sum, the findings provide strong support for the overall research framework and the underlying assumptions. Now it has proven that all three dimensions (strategic logic, organizational behavior, and financial aspects) had a positive and even significant impact on M&A performance. As this positive linkage between the three dimensions reveals, firms with a good strategic logic in respect of an M&A project do better. Factors related to organizational behavior are also important for the companies in the sample, as they lead to better M&A outcomes. Finally, all financial aspects regarding the price of an M&A do matter and have been crucial for post-M&A performance. In other words, according to the sample, the results lead to the assumption that the reasons for past M&A activities’ failure are due to the fact that the acquiring firm could have selected the wrong target (*strategic logic*), the target firm could have been poorly integrated (*organizational behavior*) and the acquiring firm could have paid too much (*financial aspects*).

ACTION STAGE

PROBLEMS

PRE-ACQUISITION

Unclear business strategy

Hurried due diligence

Lack of communication

Availability of

Inadequate information

Lack of proper training

Clashes between

management

POST-ACQUISITION

Cultural integration

Retention of key people

HR issues

Suggestions

By concluding, the following above problems is generally faced by acquirer during pre-acquisition and post-acquisition stage. For effective decision and in improving the rate of performance,

1. They must clarify their strategy.
2. Organization must conduct screening, and proper due diligence must be done.
3. Prepare people psychology.
4. Proper training and respect must be given regarding different culture.
5. There must be strong communication between the acquirer and acquiree.
6. Avoid mismanagement.

Suggestions for Future Research

In terms of further research, it is tantalizing to note that strategic logic, organizational behavior, and financial aspects seem to lead to improved performance. This would seem to go counter to the contingency theory and be in line with theories that maintain that a company has to fit certain circumstances. It could, of course, be a purely empirical accident, with the M&As merely happening to following a specific pattern. Although there is some plausible theory explanation, more theoretical explanation is also required, e.g., could a certain strategic logic serve as a stimulus in respect of an M&A and thus improve M&A outcomes?

As it was mentioned before, the comprehensive model possibly still fails to capture reality in its entire complexity, and there might be interactions between the various variables and perspectives. However, the developed comprehensive model could form a sound foundation for further analysis of the more complex interactions in this model, e.g. interrelations or feed-back effects.

In addition, future research could lead to additional variables being revealed or even new perspectives, and establish their importance regarding M&A performance. As the present model is quite flexible, these variables could easily be included or added. Furthermore, because the comprehensive framework separates variables and perspectives, it is possible to replace them and insert new ones.

Curiosity could be aroused for further research by enlarging the model to include more qualitative aspects. These insights would lead to a better and

deeper comprehension of M&A performance. Alternatively, the results could encourage further research into the following two directions: One would be towards a larger sample study, and, if possible, an even more detailed one. That would allow a more complex analysis, contributing to more confidence in the findings, thus avoiding some of the discussed limitations in this study's methodology. The other direction would be to add smaller M&As as, given their more local focus, they are likely to have different patterns.

Concluding Remarks

In the present research, the stress was on need for a more comprehensive perspective of M&A performance to help solve the “puzzle” and the mixed results found in the literature .A major intent of this study was to overcome the traditional lack of uni-dimensional frameworks and to show how individual explanations fail to explain the whole picture. The study's frame of reference as well as the empirically validated research framework provides a foundation for a better comprehension of the origins of M&A success. The present research study will contribute to further acceptance of more comprehensive approaches towards the theory of the origins of M&A success.

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APPENDICES

Questionnaire based on finding reasons for failure in M&A

Name –

Age -

Q.1) Do you think Merger fail due to HR issues?

Ans. A) yes

B) No

Q.2) Which method do you think is good for valuation?

Ans. A.) Book value

B.)Enterprise value

C.) DCF Model

D.)Three stage growth model

Q.3) Do you think Merger fail due to Cultural issues?

Ans. A) Yes

B) No

Q.4) Do you think, paying high acquisition premium has negative impact on acquirer growth?

Ans. A) Yes

B) No

Q.5) Do you think greater the market similarity the better the performance?

Ans. A) Yes

B) No

Q.6) Which acquisition is more effective and better for acquirer?

Ans. A) Friendly

B) Hostile

Q.7) What do you think the reason for acquiring the firm?

Ans. A) Target firm is too cheap to buy

B) Target firm has crown jewels

C) For diversification

Q.8) Do you think most of merger fail because acquirer deal with larger target?

Ans. A) Yes

B) No

Q.9) Do you think during pre-merger only, financial team is assembled and the make “the decision”?

Ans, A) Yes

B) No