Ayodele Olawoyin

Behind The Urge for M&A in the Telecommunication Industry

Case: Nokia Siemens Networks (NSN) Merger

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LIST OF ABBREVIATIONS

POTS – Plain Old Telephone Service
M&A – Mergers and acquisitions
JV – Joint Venture
AT&T – American Telephone and Telegraph Company
NSN – Nokia Siemens Network
AL – Alcatel - Lucent
ER – Ericsson Marconi
CM – Competence Management
LD - Leadership Development
TDP - Team Development Programme
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CMOO – Chief Marketing Operations Officer
COO – Chief Operating Officer
GC – General Counsel
HCA – Head of Corporate Affairs
HCDO – Head of Corporate Development Office
HHR – Head of Human Resources
HM&C – Head of Marketing and Communications
HONA – Head of North America
HOO – Head of Operations
HOS – Head of Service
HS&BD – Head of Strategy and Business Development
RG – Regional Leader
AP – Asia Pacific
GC – Greater China
HNAR – Head North America Region
LA – Latin America
MEA – Middle East Africa
NER – North East Region
W&SE – West and South Europe
BUL – Business Unit Leader
BCS – Broad Connectivity Solutions
CC – Converged Core
Q&BS – Operations and Business Software
RA – Radio Access
SE – Services

CTO – Chief Technology Officer

NCC - Nigerian Communication Commission

1 INTRODUCTION

The momentum of Mergers and Acquisitions (M&A)[1] phenomenon in the recent decades has been on the increase, and there seems to be no reason(s) in sight to reverse the trend. M&A has thus become a popular corporate strategic option for achieving accelerated growth and diversity (Cartwright & Schoenberg 2006, 1; Anderson, Havila & Salmi 2001, 575; Nahavandi & Malekzadeh 1988, 79). The basis for this is that growing organically in the face of stiff business competitive landscape is no longer too feasible or viable in this global world. Taking this course of action is not only expensive, but also could take longer than necessary to recoup capital invested, in the process such an organization may get caught up and be dwarf by competitors. It is therefore plausible to join forces together through M&A. The rising wave of (M&A) as seen in the last decade (cf. Cartwright & Cooper 1993, 57) is also a reinforcement of the above assertion. Besides, the perceived synergies accruable from M&A could have even served as alluring incentive to pursue it vigorously by corporate organizations. According to Sikora (2006, 1) the increasing number of M&A is not unconnected with factors such as low inflation, deregulation and a rising stock market. He further argued that we are in the middle of M&A boom, and that signs are pointing towards an increase in 2007 *and by extension 2008 and 2009.*[2]

M&A is also seen as a platform for maintaining or increasing market share, and increasing shareholders' value (Nguyen & Kleiner 2003, 447). It can equally be used to achieve quick access and entry to market without incurring penetration cost, for exploitation of synergies, for gaining economies of skills or other intangible assets especially in knowledge intensive industries, for logistics; revenue; and profitability maximization (cf. Anderson, Havila & Salmi 2001, 576; Datta 1991, 281; Kumar & Blomqvist 2004, 20; van Dick, Ullrich & Tissington 2006, 69; cf. Bresman, Birkinshaw & Nobel 1999, 2). All these are possible however, if the set targets and goals are met – when the M&A is successful.

In reality though, not all M&A succeed. Infact, the failure rate exhibits a positive correlation with M&A itself. According to Cartwright & Schoenberg (2006, 2); Pablo (1994, 804), managers of acquiring firms' report that 44% of their acquisitions are not meeting the original and intended objectives, and about 70% of all M&A are reported as failure. Failure again has been attributed by Anderson et al. (2001, 576) to inability to

[1] In this study the terms mergers and acquisitions are used interchangeably to refer to transactions involving the combination of two independent market participants to form one or more commonly controlled entities. Sometimes it may also include take-over, buy-out or joint ventures (Rieck & Doan 2007; Berkovitch & Narayanan 1993; Peng 2006).

[2] Added by the author of the thesis; although the global bubble burst occasioned by financial crisis could result in decrease in number of M&A for 2009.

manage post integration process, resulting in non realization of benefits and synergies originally expected. To Datta (1991, 281) it's as a result of mismatch of organizational and strategic fit between the acquirer and the target company. To Jemison & Sitkin (1986); cf. Culliman, Le Roux & Weddigen (2004, 97); cf. Cartwright & Cooper (1993, 59); and Anderson et al. (2004), the failures of M&A are due to the process through which the deal is envisioned and implemented, lack of proper due diligence, cultural misfit, and inappropriate attention to external business relationship. In spite of the failures witnessed and being recorded, M&A, especially in this 21st century will continue to be a critical business strategy for achieving organizational growth. What is more, M&A trend seems to have infected all facets of businesses as no business sector is exempted.

1.1 Background of the study

As mentioned before, M&A has become widespread in numerous industries in the late twentieth century, leading to the largest wave of corporate consolidation in history (cf. Warf 2003, 321). According to Warf (2003, 322) the media is awash almost on daily basis with the news of M&A especially by the giants purchasing one another, with the examples of (Citicorp and Travelers) in finance; (Exxon and Mobil Oil) in petroleum; (Disney and ABC, Viacom and CBS) in the media; (Air France and KLM) in airline; (Daimler-Chrysler) in the automobile; and even more recently (Nokia and Siemens) in telecommunications. Besides more companies are now using this route, because it makes expansion of their activities or consolidation of their position across national borders even globally easier and faster (cf. Jagersma 2005, 13; cf. Datta 1991, 281). The inherent assumption again, that M&A has the high and positive potentials for increasing profitability, market share and added value to shareholders gives it an appeal amongst business executives. As such growing inorganically through M&A to achieve scale and scope is more preferable to growing organically and alone (cf. Cartwright & Cooper 1993, 57).

With the world's global economy entering a broad, deep and potentially long recession, the impact on business activities level and performance are better imagined than experience. According to Accenture report (2008) however, a downturn need not and, does not affect all companies – and their prospect – equally. But of course the struggling organizations are bound to lose out. For organization with strong balance sheets portfolio and good recent economic performance, the current economic environment is an opportunity to leverage on to, create value from M&A. M&A during recession according to Accenture ... (2008) *can create greater value and impact for three reasons.* First, the "entry price" is low, because of drop in companies' market capitalization value to around 40 -70% below the level they were about a year ago, thus making the price of acquisition target much lower. Secondly, a lower value in turn makes targets that were formerly out of reach now reachable. And thirdly, fewer competitions for an acquisition target by companies that can rev up the bidding price, especially those that relied heavily on debt and equity financing or that have less favourable financial positions: because at this point in time, "cash is king." Inspite of these however, when one company merges with, or acquires another, several things can happen: value can be created, opportunity can emerge, or value can be destroyed (Accenture report 2008). The latter, unfortunately, occurs more often than not.

Warf (2003, 321) noted that a spate of books and articles has advanced reasons, benefits, and costs of merger activity in different industries, including finance and banking (Altunbas, Molyneux & Thornton 1997, 324; Rhoades 1998, 285-289; Tortella & van der Wee 2002), accounting and auditing (Iyer & Iyer 1996, 124; Amihud, DeLong & Saunders 2002, 858-859, 876; Sullivan 2002, 375-377), chemicals (Chapman & Edmond 2000, 755-759), airlines (Morrison 1996; Clougherty 2002), steel (Gallet 2001, 328), petroleum (Hyde 2002, 309), and health care (Sari 2002). While these works do not forge a unified consensus as to the implications and consequences of increasingly concentrated ownership in different markets, they do point to some of the most significant implications. Hyde (2002, 309) demonstrated that mergers decrease overall profitability of firms in petrochemicals; Sari (2002) noted poorer delivery of health care with managed health care penetration; and Sullivan (2002, 396) wrote that merged firms in accounting found larger clients more easily than smaller providers, while auditing fees went up following consolidation (Iyer and Iyer 1996, 124-125). Analyses of finance yield mixed results: Houston & Ryngaert (1994) and Altunbas et al. (1997, 317) argued that mergers failed to generate cost savings in banking, while Rhoades (1998, 288) pointed to efficiency gains. In short, mergers have powerful effects, both positive - when the synergies expected is achieved and negative – when synergies expected are unrealised, on the industries in which they occur.

The 1990s witnessed an enormous wave of mergers and acquisitions (M&A) that dramatically reconfigure the market structure of global telecommunications. The reasons behind this process include globalization, deregulation, the convergence of digital technologies, and the search for economies of scale and scope. Telecoms operators frequently engaged in M&A with the objectives of growing bigger and achieving higher earnings. The telecoms industries in Europe and the United States have steadily consolidated and big players in the industry are oligopolizing it. In addition Deregulation of telecommunications in Europe has been characterized by the liberalization of entry since 1998, which coincided with rapid technological change, privatizations, the creation of the single currency and the consolidation of the single market (cf. Warf 1995, 2; Warf 2003, 323.) According to Graham & Marvin (1996) the telecommunication sector which has hitherto been characterised by state protection and monopoly, has moved from slow moving and largely ignored sector to an important force in transforming the economy of capitalist society. Many countries have thus removed important legal and regulatory barriers for more competition and privatization. The removal of these barriers has therefore opened the way for increased M&A activities within and across national boundaries in telecommunications industry (Rieck & Doan 2007.) It should be pointed out that deregulation was however, not the exclusive preserve of the US and EU alone, there are evidence that the other bloc on the globe – Latin-America, Asia, Middle East and even Africa were equally not left out (cf. Ramamurti 2000, 151-152).

1.2 Purpose of the study

The boom in M&A activities in the late 20th century and which continue into the 21st century is due to belief in potential economic gains it possesses (cf. Anderson et al. 2001, 577). They are increasingly seen by firms as a relatively fast and efficient way to expand into new markets, to acquire new competences, to create economies of scale, to globalize, to spread the risk or even to dominate existing markets (Papadakis 2005, 238). And in spite of the risk elements inherent in it, the prospect of increasing profitability and market share through M&A, makes it a strategic alternative to growth rather than a reliance on growth alone (cf. Cartwright & Cooper 1993, 57). In the Industrial Organization literature, the two most commonly identified reasons are efficiency gains and the strategic rationale. Efficiency gain derives from economies of scale or scope due to the increased synergy between the involved firms. The strategic rationale follows the idea that M&A can alter the structure of the market, and competition which in turn affects the firm's profitability (cf. Neary 2007, 1230.)

To discourage monopoly, but encourage competition occasioned by globalization must have informed the decision of government both in the US and Europe to deregulate the sector. Besides, deregulation efforts attempt to eliminate the negative effects associated with monopoly, by stimulating competition and regulating the dominant seller in the market: so that the dominant firm can no longer exploit the market power that remains even after liberalization (cf. Warf 2003, 334-335.) However, there are growing concerns that developments and trends in the industry are at variance with the motive for deregulating the industry. For instance, Senator John McCain was quoted as saying that, "The 1996 Telecommunication Act has failed miserably and has left us with results that are the exact opposite of what was intended, rather than promoting competition in the industry, the Act has led to a flood of megamergers" (US Senate committee 2004). The original motive for proponents of the idea is that deregulation will not only stimulate, aid, and increase competition, but also give consumers varieties of choices at affordable and/or lower prices.

The phenomenon of M&A has also attracted strong academic interest. And have been at the center of management research for at least two decades (Papadakis 2005, 240). Studies in the fields of financing, industrial economics, strategic management and organization theory have also emerged (Anderson et al. 2001, 576). These streams of research can however be categorized into three main school of thoughts or perspectives; namely: economists and finance scholars; strategic management scholars; and behavioural scientist scholars (cf. Papadakis 2005, 250; cf. Larsson & Finkelstein 1999, 2; cf. Hunt 1990, 69).

Despite the significant research interest, due to the complexity of these organizational events, our understanding of the M&A is still incomplete: in part because researchers have tended to consider only partial explanations of them (Papadakis 2005, 250; Larsson & Finkelstein 1999, 1; Hunt 1990, 69). This perhaps explains why there is still dearth of research work on M&A as it affects the telecommunication equipments service providers sector; inspite of enormous research interest in the area of M&A in telecommunication industry.

Drawing on the previous studies and existing literature concerning M&A, see for example (Bethel & Liebeskind 1993; Black, Carnes & Jandik 2001; Chatterjee 1992; Dranove & Shanley 1994; Halpern 1983; Healy, Palepu & Rubak 1990; Montgomery & Thomas 1987; Trautwein 1990; Öberg & Holtström 2006) and leveraging on them, the study aims to contribute to the repertoire of knowledge on motives[3] for M&A. Lately there has been a couple of M&A in the equipment providers' sub-sector of the telecoms industry, with the parties' involved giving different motivation for it. Analyst watching the developments in the in the industry have also advanced some other possible rationale for the development in the sub-sector. The purpose of the study therefore is to **examine the rationale[4] propelling companies to opt for M&A in the context of trend emanating from the industry; and which is at variance with the objectives of the Government for liberalizing the industry in the first instance. Besides, the process of bringing the hitherto distinct operational and human functions together to form a new unifying company (ies) together will also be examine.** The answers to this are sought with the help of theories on M&A and motives for it, and with the

[3] A motive as defined by Oxford Dictionary is the factor(s) influencing a person to act in a particular way (The Oxford Paperback Dictionary 2001Compiled by Catherine Soanes). In the context of this study, motives also refer to combination of factors influencing M&A at the industry level in the telecommunication industry.

[4] A rationale as defined by Oxford Dictionary is a set(s) of reasons for a course of action or a belief. In the context of this study however, rationale, would also mean sets of reasons behind the course of action taken at the firms or companies level for M&A by Communication Solutions Provider in the sub-sector of the telecommunication industry.