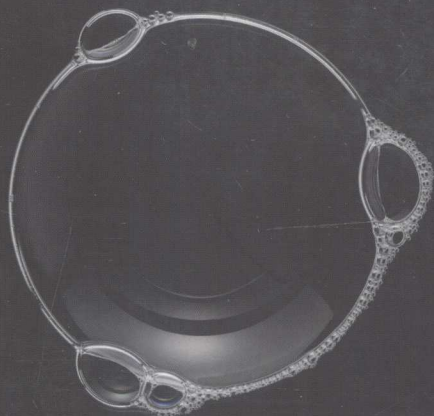
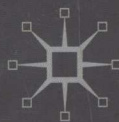


EMANUEL GOMES,
YAAKOV WEBER, CHRIS BROWN
& SHLOMO YEDIDIA TARBA



MERGERS, ACQUISITIONS & STRATEGIC ALLIANCES

UNDERSTANDING
THE PROCESS



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MERGERS, ACQUISITIONS AND STRATEGIC ALLIANCES

Professor David J. Foray, University of

Professor Patricia Foray, Oxford Brookes University, UK

Professor David Foray, University of

‘This is the first book to provide thorough descriptions and discussion about Mergers and Acquisitions (M&A) and Strategic Alliances (SA). It is also the first to compare these important strategic alternatives that are the main mode for internationalization. The book is an important addition to current knowledge, for academic, practitioners and students of business administration and international management.’

Professor Drori, Tel-Aviv University, Israel

‘A substantial text with useful practical advice, helpful frameworks and illuminating case studies.’

Professor Duncan Angwin, Oxford Brookes University, UK

‘The added value of this book is the way the authors have succeeded in combining recent research conclusions with organizational decision-making processes and M&A key success factors. As a practitioner and former senior executive of Teva – the world leader of the Generic Pharmaceutical industry recognized for its successful growth track record of more than 35 acquisitions – I recommend this book as a real contribution to our academic and managerial “body of knowledge”.’

Haim Benyamini, Former Corporate HR, Teva

To our families

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PART ONE

Strategic Context

CHAPTER 1

Overview of Basic Concepts

Executive overview

There are many options available for companies wanting to explore growth via external means. ‘Mergers’, ‘acquisitions’ and ‘strategic alliances’ are broad terms that cover this area. Within this topic, however, there is a wide range of potential approaches. Which option is the appropriate one for any particular company will depend on a wide range of factors but, given the complexity of this area and the real potential to destroy shareholder value if you get it wrong, it is important to have a clear understanding of the options available. This chapter discusses in detail the different forms of mergers, acquisitions and strategic alliances. Having read this chapter, the reader will have a firm understanding of the range of potential external growth options available.

Introduction

Merger, acquisition and strategic alliance activity around the world has been booming for the last three decades, and the level of activity stands in sharp contrast to its high failure rate. For example, despite the negative impact of the global financial crisis, the global value of M&A activity during the first half of 2010 was approximately \$1.5 trillion (Zephyr M&A Report, H1 2010). This excludes the value of strategic alliances, which by their nature frequently do not publicly disclose the deal value. But, just like buying a house (often the largest financial decision people make in their lives), corporate mergers and acquisitions (M&A) too often fail to get the considered thought required to make a good decision. Emotions often get in the way and rational thought ultimately gets sidelined.

The motives and rationale for M&A and alliances will be discussed in detail in the next chapter. In general, the growth in M&A and alliance activity has been driven by companies’ desire to achieve growth and strengthen their competitive positions. This is happening in an environment of increasing fragmentation and globalization of markets, rapid growth change in national and international markets, and reduction of world tariff barriers. This environment has fuelled the growth of large-scale firms and the concentration of various industries.

The emergence of a consumerism-based society embodying an ever-increasing diversity of tastes and preferences gives rise to shorter product life cycles and a need for continuous innovation and technology investment. These and other internal factors, such as the requirement to spread risk due to the increasing

uncertainty of fast-changing markets, the importance of the speed of development and achieving synergies such as economies of scale and scope, increase the need for collaborative arrangements between organizations. Mergers, acquisitions and alliances have therefore become the preferred method of development, ahead of organic growth.

However, despite being the preferred method of development and despite the vast amount of research that has been carried out into mergers, acquisitions and alliances, the success rate is still very poor. Indeed, as noted by Kale and Singh (2009), strategic alliances present a paradox for firms, as on the one hand firms engage in a large number of alliances to achieve and sustain their competitive advantages and growth, and on the other hand these alliances exhibit surprisingly low success rates. Evidence indicates that, in fact, most M&A and alliances fail (Kitcing, 1967; Bleeke and Ernst, 1993; Pritchett *et al.*, 1997; Thompson, 2001; Testa and Morosini, 2001; Knapp *et al.*, 2005; Papadakis, 2005; Mayer-Sommer *et al.*, 2006; Schweiger and Lippert, 2005).

While there may not be agreement on the actual rate of successful/unsuccessful deals, what is clear is that far too many deals fail to deliver what was promised (Schoenberg, 2006; Cartwright and Cooper, 1993; Cartwright and Cooper, 1996).

An analysis by the Hay Group consultancy in 2007 of more than 200 major European M&A over the preceding three years found that senior business leaders believe that just 9 per cent were ‘completely successful’ in achieving their stated objectives (Hay, 2007). This plummeted to 3 per cent of mergers and acquisitions by UK companies. A 2006 survey of more than 400 US and European corporate executives by Accenture found that only 45 per cent believed that their most recent deals achieved the expected cost-saving synergies and only 51 per cent achieved the expected revenue synergies (Accenture, 2006).

A meta-analytic study that investigated an extensive body of literature on the effect of financial and strategic variables as predictors of M&A performance failed to find clear relationships (King *et al.*, 2004). These findings pose a complex challenge to researchers in the field of M&A and underscore the need for continued in-depth research into the parameters that affect overall M&A success. For M&A practitioners and companies undertaking M&A activity, it reinforces the message that M&A is a complex area and needs to be given careful attention if it is to deliver value for the company.

Over the past 30 years, a growing body of research has investigated the antecedents that predict the performance of M&A. Despite this extensive body of research, however, the key factors for M&A success and the reasons why so many M&A fail remain poorly understood (Stahl *et al.*, 2005).

The conclusion of a recent review of the M&A literature by King *et al.* (2004) is that ‘existing empirical research has not clearly and repeatedly identified those variables that impact an acquiring firm’s performance’. The authors suggested that ‘[r]esearchers simply may not be looking at the “right” set of variables as predictors of post-acquisition performance’ (p. 197) and recommended that future research pays more attention to non-financial variables that are currently under-represented in theory and research seeking to explain M&A activity and performance.