

Mergers, Acquisitions and Corporate Development

COURSE OUTLINE

Professor Jay Anand

Office: 836 Fisher

Phone: 247-6851

Email: anand.18@osu.edu

Webpage: http://fisher.osu.edu/anand_18/

MHR 808: Tuesday & Thursday, 3:30-5:18pm, Gerlach 305

MHR 808N: Thursday, 6:00-9:48pm, Gerlach 305

"Many managers were apparently overexposed in impressionable childhood years to the story in which the imprisoned, handsome prince is released from the toad's body by a kiss from the beautiful princess. They are certain that the managerial kiss will do wonders for the profitability of the target company...why else should the shareholders of company A want to buy an interest in company B at a takeover cost that is two times the market price they'd pay if they made direct purchases on their own?...we've observed many kisses, but very few miracles."

Warren Buffet
Annual Report, 1981

"E' cosa veramente molto naturale e ordinaria desiderare di acquistare; e sempre quando gli uomini lo fanno che possono, saranno laudati, o non biasimati; ma quando non possono, e vogliono farlo in ogni modo, qui e' lo errore e il biasimo"

(The desire to acquire is a very common and natural thing; and when a man who is capable of doing it makes the attempt, he will generally be praised, or at least not blamed; error and blame arise when a man lacks the necessary ability and still wants to make the attempt at all costs.)

Niccolo' Macchiavelli, De
Principatibus
Ch. III - De Principati Misti

OBJECTIVES

Mergers and acquisitions (M&A) can provide significant opportunities for value creation, value destruction and value appropriation, as the corporate events in the last few years illustrate. While some firms have been able to consolidate their position among competitors and achieved growth and profitability using M&A, others have achieved disastrous results. While M&A transactions frequently end in failure, research and experience has revealed that success and failure are not random events, but rather based on specific strategic choices made by the decision makers of firms. This course presents the opportunity to analyze the mechanisms underlying the creation and destruction of value in mergers and acquisitions from a strategic perspective. The following issues will be examined in this course:

- Internal and external forces that drive firms to merge or acquire
- Various value creation strategies involving M&A
- Appropriation of value through proper valuation, negotiation and internal decision making
- Post-acquisition integration in order to ensure that the value creation potential is realized

This is a strategy course though it is inter-disciplinary in nature, so we will borrow concepts from international business, organizational behavior, finance, marketing and other disciplines. Since the emphasis here is on strategic and operational aspects of these transactions rather than financial considerations, it is complementary to, and builds on courses in corporate finance and valuation.

We will begin with an analysis of major strategies that underlie most M&A transactions. This will include the necessary conditions for value to be created, for example through operating synergies, cost efficiencies and revenue enhancements, knowledge and skill transfers. We will also study the incidence of non-synergistic transactions. This will be followed by an examination of the drivers of M&A and choice of target firms, with recognition of the anticipated challenges, risks and pitfalls of specific choices. We will also discuss the complexities of the integration and implementation processes, which determine how much of the value creation potential will actually be realized. Throughout the course, performance implications are evaluated with the use of both successful and unsuccessful illustrations as well as conclusions from broad empirical research. There is an opportunity for all the students to customize the course to their learning outcomes through project work.

CLASSROOM PROCESS

A mix of pedagogical methods will be used in this course, though the dominant method will be case discussion. The typical class will be case discussion demanding active contribution from all students. This will provide an opportunity for divergent perspectives to be aired. This is important in a course of this nature, where there are seldom any "right" or "wrong" answers. A review of the key lessons from the case and how they relate to more general principles, will wrap-up the class. In some of the classes there will be group assignments and exercises.

Each of the classes represents an opportunity to learn, which can only be properly utilized with adequate preparation before class. It is

important that all classes be attended, and that each student contributes to the learning and discussion in class. It is also expected that each present student is fully prepared to be "cold-called".

EVALUATION

Evaluation of student performance will be based on the following:

1. Group Project 50%
2. Class Participation 50%

Group Project: The classroom part of the course aims to cover topics most likely to be of interest to the majority of students. However, the project is an opportunity for the students to customize the course to their specific interests. Consequently, it is hoped that students will be able to identify a topic of their interest and team up with other students with similar interests. The project will be done in groups of four to six students.

The choice of topics/methodology/format for the project is entirely up to the project teams. In your research you may rely on secondary reports (e.g., financial or accounting results); conduct your own research by contacting managers, analysts, employees or customers, conduct surveys, or any combination of innovative analyses. I encourage all the groups to meet and discuss their proposals with me.

Examples of past projects include:

- (1) an application of ideas from current academic research to "real world", or

- (2) an in-depth examination of an acquisition(s) made by a selected firm, with some general implications, or
- (3) analysis of industry level competitive dynamics leading up to widespread consolidation at the firm level, or
- (4) a comparative analysis of corporate restructuring across firms in selected industry, or
- (5) a critical evaluation of new developments in the area of corporate growth, examining the impact on various stakeholder groups.

In general, projects can be of two types: those that analyze conditions under which M&A activity takes place, or those that analyze the ingredients of successful (or failed) M&A. The steps in the project (either option) are as follows:

- 1) Pick a topic and firm(s) that your group finds most interesting and want to learn more about, and prepare a brief proposal on one slide. We will discuss these proposals during the second week of classes. Once you obtain some feedback, I will expect you to read more deeply about that topic.
- 2) Any time within the term, you are encouraged to meet with me again to discuss your progress or roadblocks.
- 3) There will be an optional "final presentation" of projects in the last class. Again, the groups will seek feedback from the rest of the class, and will have a choice to get their presentations considered for part of the grade.
- 4) The groups will submit their final reports in electronic format by June 4.

Deadlines: To ensure steady progress on the group project, the following deadlines will need to be met:

1. One Page Proposal Due: Second week of classes
2. Final Presentations (optional): May 24
4. Final Group Project Report Due: June 4

The projects can be of any length, though 15-20 pages (double-spaced) plus exhibits/tables is considered reasonable. It should include an executive summary.

Some general pointers to keep in mind:

1. Provide some empirical data on the results they have achieved, not just opinions. For example, how do we know that a firm's approach was successful?
2. Feel free to have a liberal number of exhibits with figures, diagrams, appendices ...etc. to support the case, but make sure they include relevant information.
3. Video segments of interviews and profiles of the company can be very useful in your presentations/paper. If you are interviewing managers for this report, it is important for you to provide actual quotes from your interviews to bolster the case. Think of other innovative communication methods.
4. If you focus on firms or industries, please make sure you detail first the business or industry shifts that may be driving the strategies.

Generally, the *most successful* projects involve:

- (a) *A clear focus:* In-depth focus on a few key issues is better than a broad focus on lots of issues. Keep the industry and firm background to an appropriate length and spend the bulk of the case on the issue you are focusing on.
- (b) *Clear lessons:* Convincing implications for other firms and best practices are very important, and
- (c) *Critical analysis:* Take a critical perspective of the conventional wisdom. Don't believe everything you read in business magazines or newspapers: instead think and analyze so as to identify potential inconsistencies.

Generally, the *least successful* projects involve a summary of information from business press without adequate articulation of any new insights.

I would like to assist you in any way possible to make the cases as good as possible so please don't hesitate to iterate with me on your projects as often as you like. I view the project as an important learning component of the course in which you can examine, first hand, some of the course principles and their importance for company success.

Class Contribution: The contribution of students in the classroom will determine the rest of the grade. Contribution scores will be determined by student participants in this course, i.e., each student will have the opportunity to give a grade to every other student twice during the term. These scores should reflect the attendance, frequency of participation, and most importantly, the quality of ideas contributed. At least some students will be cold-called in every class. High quality

contribution requires adequate preparation of cases, being able to listen and respond to/build upon other students' viewpoints, and good articulation.

COURSE MATERIALS

There is no required textbook. There is a course-pack consisting of readings and cases.

Suggested Additional Readings

Following are some books, recommended to complement your understanding of the drivers of value creation in M&A processes.

- *"Managing Acquisitions: Creating Value through Corporate Renewal"*, Haspeslagh & Jemison (1991), Free Press.
- *"From Promise to Performance"*, Bauman, Jackson & Lawrence (1997), Harvard Business School Press
- *"The Synergy Trap"*, Sirower (1997), Free Press.
- *"Joining Forces"*, Marks & Mirvis (1998), Jossey-bass
- *"Takeovers, Restructuring, and Corporate Governance"*, 2nd Edition, Weston, Chung & Siu (1998), Prentice-Hall
- *"Winning the Merger Endgame"*, Deans, Kroeger & Zeisel, (2003), McGraw Hill
- *"Applied Mergers and Acquisitions"*, Bruner (2004), Wiley

"Mergers & Acquisitions: Managing Culture and Human Resources", Stahl, Mendenhall & Mark (2005), Stanford Business Books

ABOUT YOUR INSTRUCTOR

Jaideep (Jay) Anand is Associate Professor of Corporate Strategy and International Business at the Fisher College of Business, Ohio State University. Previously, Jay has taught at the University of Michigan, Ivey Business School in Canada, and at the Wharton School, University of Pennsylvania. He is also a research fellow and faculty associate at the William Davidson Institute for the study of emerging economies at the University of Michigan. He earned a B.Tech. in Mechanical Engineering from the Indian Institute of Technology, New Delhi, India, and master's and Ph.D. degrees from the Wharton School.

His interests include corporate growth, strategy implementation, mergers & acquisitions, joint ventures and strategic alliances, and international strategies. He regularly conducts executive education programs and consults with companies all over the world. He has worked in more than a dozen countries in Africa, the Americas, Asia and Europe. He has appeared on *ABC* and *CBS News*, and *Summit Business TV* and has been referenced in *The Economist*, *USA Today*, *CEO magazine* and other popular media in several countries. He has received several awards for his teaching and contribution to management knowledge, including Best MBA Teacher award (2003 and 1997), Best PhD Teacher award nomination (2004 and 2001), Best Research Paper Award in International Management, the Booz, Allen and Hamilton Fellowship, Outstanding Reviewer award from the Academy of Management, F.W.P. Jones Award for Outstanding Faculty, and several other international awards for research and professional excellence, and has been selected for inclusion in *Who's Who in America*, 2006 and 2007.

He is a member of the editorial boards of *Strategic Management Journal*, *Organization Science*, *Journal of International Business Studies*, and *Journal of Management Studies*. His research has been published in business press (including the *Financial Times*, *California Management Review* and the *Columbia Journal of World Business*), academic journals (including *Strategic Management Journal*, *Organization Science* and *Journal of International Business Studies*), and has been widely presented at research conferences around the world. He has also authored many popular case studies, which have appeared in some of the most popular textbooks on strategy and international business.

CLASS SCHEDULE

Note: Each “class” is a block of 1 hour, 48 minutes. The first section will have one class each on Tuesday and Thursday (3:30-5:18pm) beginning on March 27. The second section will have two classes on Thursday (6-9:48pm) beginning on March 29.

Class 1: Introduction

Read: How Many Matches are made in Heaven? (Financial Times, 1999)

Class 2: Understanding Value Creation in M&A

Case: In-class assignments

Read: Desperately Seeking Synergy (HBR, 1998)

Class 3-4: Group Formation and Discussion of Project Proposals

Assignment: As a group, please bring 1 transparency slide (hardcopy) for presenting your group project proposal to class. Identify the names of your group members, the context of your study, the key issues and expected learning outcomes.

Class 5: Consolidation Strategies and Drivers of M&A

Case: Benjamin the Blacksmith-Aaron the Armorer (to be handed out in class)

Read: M&A Strategies in Mature and Declining Industries: Theoretical Perspectives and Implications; Asset Redeployment, Acquisitions and Corporate Strategy in Declining Industries

Class 6: Pause for Thought I: Consolidation Strategies

Assignment Questions:

In groups, select a specific industry and analyze the patterns of consolidation. Please emphasize the following:

1. When did this consolidation take place? Why?
2. Who has acquired whom? Why?
3. What are the implications of this for performance of the industry and different firms?
4. Please bring 1 or 2 transparency slides (hardcopy) for presentation in class.

Class 7-8: Acquisition Process: Challenges & Solutions

Guest Speaker: Mr. Barry Hoffman, General Counsel, Valassis Communications

Assignment: To be distributed

Class 9: Diversification Strategies I: Organizational Issues

Case: PepsiCo's Restaurants (HBS, 1994)

Read: To Diversify or Not to Diversify (HBR, 1997)

Assignment Questions:

1. Why is PepsiCo considering the acquisition of Carts of Colorado (CoC) and California Pizza Kitchens (CPK)?
2. If yes, to whom would they report?
3. Does PepsiCo add value to its restaurant business? Is its current organization of restaurant chains appropriate?

Class 10: Diversification Strategies II: Competition and Capabilities

Case: Gillette's Energy Drain (A): The Acquisition of Duracell (Ivey, 2004)

Assignment Questions:

1. If you were James Kilt, the CEO of Gillette, what strategic actions would you take to turn Duracell around?
2. What are the impacts of Duracell's introduction of Ultra on the nature of competition in the battery industry?
3. What could Gillette have done differently in 1996 that would have had a more positive impact on company and industry profitability?
4. Why was Gillette unable to achieve the same success in batteries that it had been able to achieve in shaving products?

Class 11: Pause for Thought II: Diversification Strategies

Read: Not All Acquisitions are Alike and that Matters (HBR, 2001)

Assignment Questions:

In groups, select a specific firm and analyze the patterns of its diversification. Please emphasize the following:

1. When did this diversification take place? Why?
2. Who has acquired whom? Why?
3. What are the implications of this for performance of the firm?
4. Please bring 1 or 2 transparency slides (hardcopy) for presentation in class.

Class 12: M&A and Emerging Economies

Case: Haier Group (INSEAD, 1999)

Assignment Questions:

1. What are Haier's key resources and capabilities?
2. Why are the workers of companies acquired by Haier against changing to the new conditions?
3. What should Haier do being confronted with a strike and some violence?

Class 13: Technology Related M&A

Case: The Acquisition of Technology is the Acquisition of People (Stanford, 2001)

Assignment Questions:

1. Cisco is one of the best examples of a value innovator, which successfully used acquisitions to establish a dominating position in new market space. Identify what you believe are the most important elements (criteria, processes, specific actions etc.) of Cisco's approach to selecting and integrating acquisitions.
2. For each of the elements you have identified describe why it is important (what is its purpose?), and specify whether you would characterize it as typical (conventional practice by companies doing technology acquisitions) or unusual?

Class 14: Post Merger Integration I: Cultural Integration

Case: Shinhan Financial Group (HBS, 2006)

Read: Making the Deal Real: How GE Capital Integrates Acquisitions (HBR, 1998)

Assignment Questions:

1. Why did SFG want to buy Chohung? Having received immediate visible employee resistance, should they have gone forward?
2. What issues should SFG be most concerned about? What should be the primary areas to watch in the integration process? Does SFG have the right structure and systems in place to deal with them?
3. Consider the speed of integration and the sequence of change activities. Should it be faster or slower? Were the right choices made between short term and long term actions? Did they find the right balance between operational and cultural integration?

4. What additional activities might SFG consider?

Class 15: Post Merger Integration II: Structure, Systems & Culture

Case: Post-merger Integration at Northrop Grumman Information Technology (Darden, 2003)

Assignment Questions:

1. What is NG's corporate strategy? What role does this acquisition play in this strategy?
2. What is NGIT's corporate strategy? What is the role of acquisitions?
3. Dissect NGIT's approach to post-merger integration. What are the key lessons?
4. What challenges will the TRW acquisition present to the NGIT and NG organizations?
5. What opportunities might NG have for future acquisitions and growth?

Class 16: Comprehensive Series Part I: Globalization Strategy

Case: Nestle-Rowntree (A) (IMD, 1989)

Read: Diagnosing Global Strategy Potential: The World Chocolate Confectionery Industry

Assignment Questions:

1. What are the key success factors for a business in the world chocolate industry? How attractive is the chocolate industry for further investment?
2. Why has Rowntree emerged as a takeover target? What are the potential strategic benefits of Rowntree for Nestle and for Suchard?
3. What are the strategic implications for Nestle if Suchard were to acquire Rowntree, and vice versa?

Class 17: Comprehensive Series Part II: Negotiation Strategy

Case: Nestle-Rowntree (B) (to be handed out) (IMD, 1990)

Read: Information Asymmetries: How Not to Buy a Lemon in M&A Negotiations

Assignment Questions:

To be handed out

Class 18: Comprehensive Series Part III: Organization Strategy

Case: Nestle-Rowntree (C) (to be handed out)

Assignment Questions:

To be handed out

Class 19-20: Project Presentations