

alma

SEITE 4

M&A-Erwartungen häufig unerfüllt

SEITE 10

Wohnen wie im Palazzo

SEITE 23

Management und Politik – ein Zweigespann



M&A-Erwartungen häufig unerfüllt

Fusionen sind zu dem zentralen Instrument geworden, den globalen Strukturwandel der Wirtschaft zu bewältigen. Die Motive, warum dies geschieht, sind sehr vielfältig: Synergiengewinn, Zuwachs an Marktmacht usw. Die mit diesen Motiven verbundenen Erwartungen können aber häufig nicht erfüllt werden.

Von Günter Müller-Stewens

Look back over the last 100 years and it is clear that mergers and acquisitions come in waves. These waves coincide with surging stock markets (Figure 1) and each has what academics call its own "dominant logic". The 4th wave, for example, was driven by financial speculation (the break-up of companies by "corporate raiders") and the liberalisation and deregulation of some large industries (such as telecommunications). The 5th wave which we are now in is fuelled, among other things, by globalisation, converging European markets, shareholder value and the impact of the Internet. AOL/Time Warner, perhaps the most interesting deal of 2000, illustrates how future expectations are powering new and hitherto unimagined combinations of companies.

The question for managers in all this is whether to join the fray. History shows that previous waves came to an end with a stock market collapse but for the moment at least that still seems a distant threat. This year's deal volume, including the record \$186bn European takeover of Mannesmann by Vodafone, is likely to top \$3800bn, ten times the level of transactions in 1992. Wise managers, on the other hand, will be mindful of the extensive body of research which challenges M&A theory and highlights the large number of deals that fail to add shareholder value. How can these studies help and how should managers proceed?

To start with let's look at the theory. The M&A market can be viewed as an arena in which managerial teams compete for the right to manage corporate resources. If one team sees that a company's resources are not being leveraged in a way that exploits their potential it will argue that it will be a better owner. It can then offer existing shareholders a better price for the company than today's share price, backed up with ideas for new value creation.

At least two problems can complicate this neat picture – Government interference and less than "pure" individual motives.

While the situation is improving there is still a tendency in Europe to interfere in the efficient operation of capital markets, as seen in the way Italian politicians sought to obstruct Deutsche Telekom's bid for Italian Telekom. German and Austrian attempts to require bidders to finance acquisitions partly in cash was another example this year, not least because of the way

this would be likely to prejudice the ability of small companies to take advantage of their stock market rating to buy larger ones. A more encouraging sign in Germany was the behaviour of the "voting premium" (the difference between the price of voting shares and non-voting shares in companies which have these two classes of capital) when shareholders sensed that the Vodafone/Mannesmann deal might work. The rise in the premium was a reflection that increased competition for control can be mirrored in higher prices for control rights.

Then there is the question of motivation. In theory there are two – a desire to improve value by realising synergies between the buying company and its target (so called efficiency theory); and the ambition to take advantage of increased market power to charge higher prices to clients or put a squeeze on suppliers (so called monopoly theory). In practice, however, there are other motives including very individual ones such as empire building which until the advent of the e-economy had proved to be the fastest way to grow. As far back as 1934 Joseph Schumpeter wrote that "by mergers managers can realise their 'dream'...to found a private kingdom". There are other non-rational motives which arise from a lack of transparency (e.g. not having the courage to halt a flawed transaction once it is under way).

Such market and human imperfections no doubt contribute to the poor record of M&A, which has been the subject of dozens of studies over many years of management research. Few confirm any significant improvement in the efficiency of organizations as a result of mergers. Many show that synergies over and above the costs of acquisition are hard to achieve. The same goes for higher prices as a result of enhanced market power. Some competitors actually increase their combined capacities after a merger to effect economies of scale. As for profitability the evidence suggests that this usually declines after a merger, while the general tendency of the buying company's share price not to change suggests that the capital markets do not anticipate that mergers will increase future earnings. The main positive outcomes are in areas where there is an overlap between companies (products, markets, technologies, knowledge base, usw.) but the overall conclusion seems to be that the main winners of an acquisition are the shareholders of the target who on

average see an increase in their investment of about 20 percent.

Faced with the risks of failure one temptation is to do nothing. Managers know that M&A can be a nightmare for those involved, Rover/BMW and Fokker/Daimler-Benz being two recent cases in point. They know that it can take time for an acquisition to be declared successful or a failure – take the Daimler-Chrysler-deal, which was initially received with great enthusiasm but about which observers are much more cautious. Yet at the same time they are probably under industry and stock market pressure to adapt to a changing environment and may understandably feel that merging or acquiring may be the most appropriate and quickest way of doing it. Should they believe that they can be one of the exceptions and that embarking on M&A can be justified as part of the normal risk of an entrepreneur?

I do not believe there can be a general recommendation to acquire or not. But there are huge differences between knowing about the risks of M&A and acting on them, as opposed to leaping into the dark. Too many acquisitions at the moment are announced but never finalised. A good start is therefore to think the acquisition through. "Thinking through" means both examining the logic of the merger and the identifying the value creation potential in the context of a strategic discussion inside the company.

Ensuring that the resources, capabilities, skills, motivations, attitudes, procedures and routines are in place so that the potential can be realised.

The four-sided M&A qualitycircle in figure 2 can be a useful approach. It shows that before the deal is closed there are two important things: the quality of strategic thinking (which we have discussed) and the quality of transaction management. Deal making expertise is in most of the cases relatively easy to acquire on the market if it is not already available in the company. But experience is required to find the most appropriate advisers. Management, meanwhile, can prepare for the negotiations through role playing and agreeing price disciplines – and a price spectrum – in advance so that things do not get out of control. It is crucial at this relatively early stage to involve the people who will ultimately be responsible for integrating the newly merged companies.

In the ex post phase the quality of commitments will be critical. This can be improved by the early involvement just referred to, by transparent decision making, by adjusting incentive systems to the goals of integration, and by staging the cultural processes. Last but not least there is the quality of operations, the execution of integration strategy. One dimension of this is finding an efficient project organisation which mirrors the structural, political and cultural complexity of the integration. The major task is to "bridge" both organisations. Another

Die "Quadratur" des M&A-Qualitätskreises

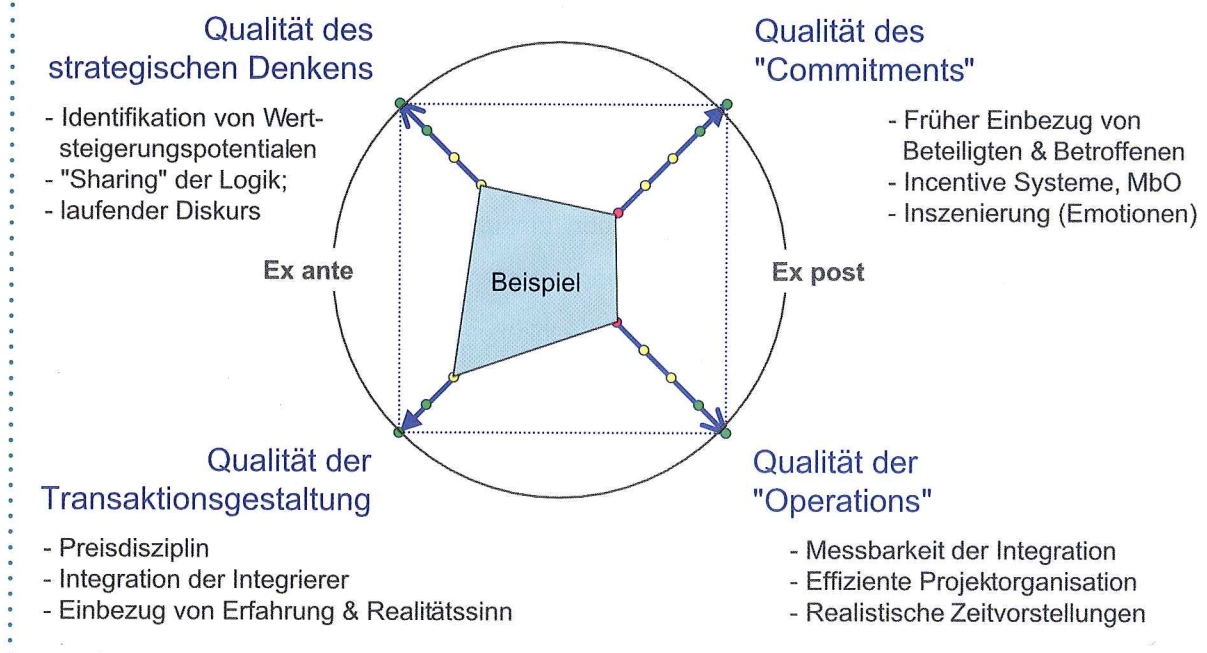


Figure 1: Die «Quadratur» des M&A-Qualitätskreises.

aspect is to agree a challenging, but realistic time schedule. The progress of the integration has constantly to be measured against goals so as to give the organisation early feedback on where the process stands. This includes tracking major risks such as the loss of key clients and people. GE Capital, which acquires a company almost every day somewhere in the world, is doing this quite successfully. One of the reasons for this is their strength in execution – the application of standardised procedures which are constantly improved and learning which is absorbed by the organisation.

In summary I would say that M&A can indeed be the right way forward to secure the future of a company in the current dynamic environment. But most acquisitions are as much threat as opportunity. Those involved are entitled to expect that management decisions should be both the result of deep and serious thinking (not only on the strategic logic of the merger, but also on its implementation) and that the decisions taken follow a visible "procedural justice". Communication and authentic behaviour are perhaps the most critical factors in a successful acquisition. Managers should not, for example, talk about a merger of equals if everybody in the company knows that this will never happen. They need to develop a more human face than many show at the moment, something which is particularly important in many European countries at the moment where ill conceived and poorly executed deals have tarnished the M&A phenomenon.

Summary

Derzeit schwappt die 5. Mergers- und Akquisitions-Welle über die westliche Welt. Noch nie gab es so viele Unternehmenszusammenschlüsse wie in diesem Jahr. Fusionen sind zu dem zentralen Instrument geworden, den globalen Strukturwandel der Wirtschaft zu bewältigen. Die Motive, warum dies geschieht, sind sehr vielfältig: Synergiengewinn, Zuwachs an Marktmacht usw. Ernüchternd ist dabei, dass die mit diesen Motiven verbundenen Erwartungen häufig nicht erfüllt werden können. Akquisitionsentscheidungen sind immer sehr risikobehaftet. Auf dem Papier durchaus strategisch Sinn machende Akquisitionen scheitern, weil es im Management an den spezifischen Fähigkeiten fehlt, die errechneten und erträumten Nettowertsteigerungen tatsächlich zu realisieren. Der Vorgang wurde nicht zu Ende gedacht. Dieses Risiko scheint zuzunehmen, wenn man die steigende Anzahl angekündigter, aber dann doch wieder abgesagter Fusionsvorhaben betrachtet.

Günter Müller-Stewens ist Ordinarius für Betriebswirtschaft mit besonderer Berücksichtigung der Organisationslehre und Direktor des Instituts für Betriebswirtschaft.

Die fünf US-Merger-Wellen

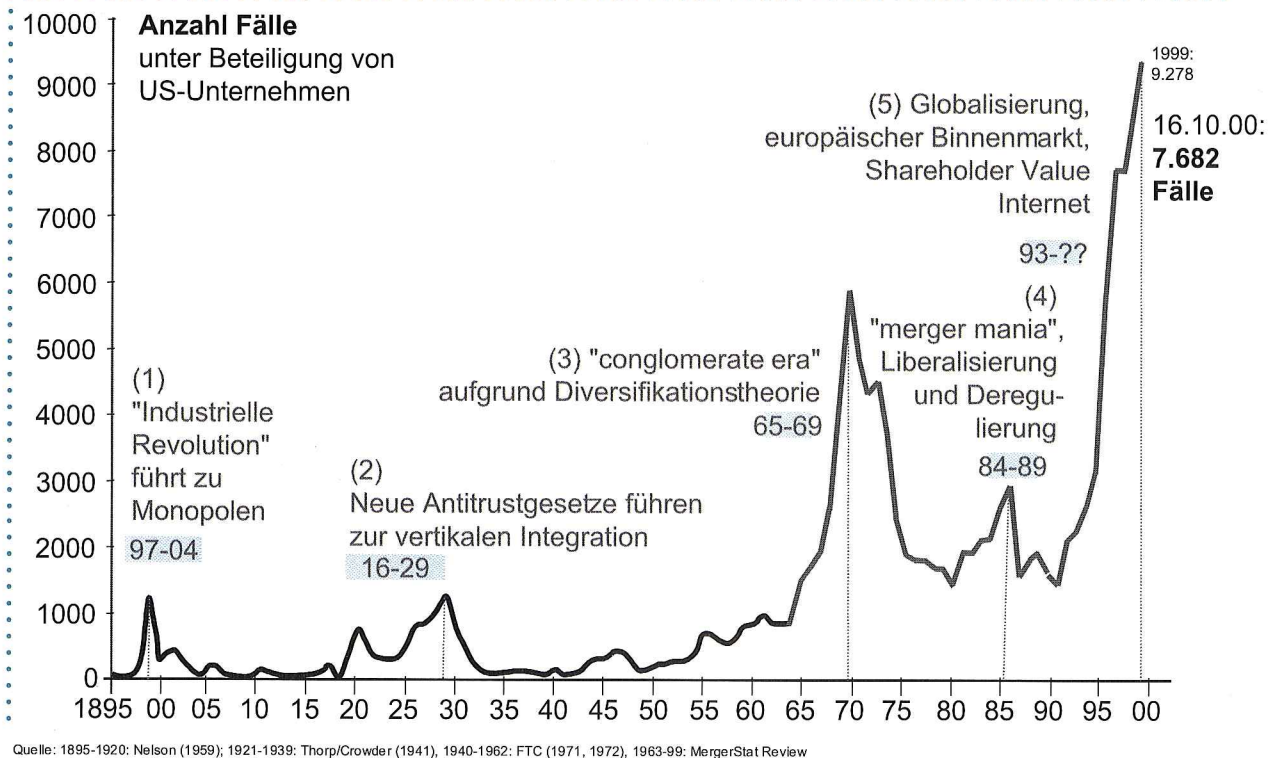


Figure 2: Die fünf US-Merger-Wellen.