MAKING MERGERS AND ACQUISITIONS WORK

From Strategy and Target Selection to Post Merger Integration

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From Strategy and Target Selection to Post Merger Integration

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A DEFINITIVE GUIDE TO THE CREATION OF YOUR OWN M&A PLAYBOOK

In many industries, M&A is a central tool to be used in strategic objectives like market entry, technological leadership, or efficiency in production and distribution. But the success rate of most merger and acquisition deals is low. Flawed strategizing, unrealistic synergies, poor target selection, cultural clash, and, most of all, weak post-merger integration processes pose huge challenges which can lead to costly failures. Still, the lack of organic growth opportunities for many firms — especially in mature markets — leave them little choice. They must acquire or risk stagnation.

This book addresses the salient question of how to make M&As work. We offer the unique possibility to embark with us on the journey to reflect upon the past M&A activities of Prysmian — the global leader in energy and telecom cables — by sharing its real-world experience and carving out a manual for success in a mature industry that requires high levels of integration between operating companies. Co-author Fabrizio Rutschmann, Chief Human Resources Officer (CHRO) will, together with his colleagues, offer you a deep, insider perspective — another rarity in publications on this topic. (Rutschmann is the other half of the narrative voice, although he will be referring to himself in third person throughout this book for clarity's sake.)

Throughout, as we refer to Prysmian, you will notice a slight shift in tone, particularly in the latter half of the book, where we discuss in detail the post-merger integration process, an area that has been much overlooked by the previous literature, and where

Prysmian's example shines. This less formal approach is reflective of our intimacy with the case, and our desire to bring you into the company at a more granular and personal level.

"Certainly, one of our greatest strengths is our openness," observes Andrea Pirondini, Chief of Operations for Prysmian Group. "In fact, we are so candid about many of the most contentious issues in business that, in any other company, we would be thrown out of the boardroom!"

Prysmian's management team has afforded us a unique opportunity, and one that we intend to exploit fully, particularly in the later chapters where Prysmian executives divulge their greatest post-integration challenges.

That said, the M&A story will not only be told from the Prysmian perspective. The invaluable insights from Prysmian will complemented by numerous case illustrations from other companies operating in a wide range of industries.

This revolutionary playbook is organized into five main sections, corresponding to the complete M&A process:

1. strategy;
2. target selection;
3. due diligence;
4. negotiation and deal closing; and,
5. post-merger integration.

We base our intensive study on over 50 M&A deals and the relevant academic literature. In order to save the readers' time, we summarize the key messages of the book as propositions: if you agree with what we propose and already run your M&A processes as summarized by the statement, you may either decide not to read these specific sections or skim for insights that expand upon your knowledge base.

However, if you disagree with our recommendation, and see potential in getting a different viewpoint or a way to implement change in your company, you may invest time to carefully study what we have to say and adapt to your own unique circumstances. This is how you create your own M&A playbook. Think of this as your customized guide, complete with a series of codified steps that will increase the likelihood that your next acquisition creates long-term shareholder value. It's an investment of time that will pay off greatly in your company's future.

1

INTRODUCTION

M&A is a risky growth option, but for many business situations it remains the most promising alternative to reach strategic objectives. As a proof of this concept, we can observe how the level of M&A transactions across borders has not only increased, but reached a record high in 2015. Does it create value? Not always. Existing studies claim that only 10–50% of M&A deals create value. So, if we know that most M&A deals eventually fail, why are so many executives eager to find the next opportunity to acquire a firm? The answer is: overconfidence.

A recent case in point, and the reason why this book is so relevant to any business seeking growth, is Kraft Heinz's failed attempt to acquire Unilever. Kraft Heinz's spectacular missteps despite its own long history of growth by acquisitions suggest that even the giants with track records have much to learn about M&A, yet lack the Emotional Intelligence/Emotional Quotient (EQ) to recognize how far they are falling short as potential buyers.

To put it bluntly, Kraft Heinz was arrogant in its approach. Its $143 billion offer would have been the largest in the history of the food and beverage industry and put the world's best-known consumer brands under one roof. But its early announcement of its intention suggests it failed to understand its target and "read the room." Although Kraft Heinz stated its actions were "friendly," its premature and public eagerness to forge ahead suggested to the

market and, it seems, to Unilever, that it was launching a hostile takeover. Whether or not that was truly the case, it demonstrates that the prospective acquirer was tone deaf.

The proposed merger was a mismatch on many levels. Kraft Heinz, a much smaller entity in terms of market capitalization, is a debt-laden investment vehicle of a private equity (PE) fund. It was attempting to buy a cash-rich company with solid results and a relatively slow-moving share price to boost its own growth, which likely could no longer be sustained by its own aggressive cost-cutting approach. But Unilever, a complex organization with a dramatically different culture and two strong national interests — Great Britain and the Netherlands — rebuffed the deal, likely fearing heavy rounds of layoffs and asset stripping under Kraft Heinz's ownership.

We'll dive into the reasons for the bid's failure later in the book, but the point is that even seasoned corporate leaders — like Kraft Heinz board member Warren E. Buffet — don't always get it. Kraft Heinz was genuinely surprised by the resistance of Unilever's managers. It failed to take into account the fact that their differences in culture and business model are too high. Unilever's Chief Executive Officer (CEO) strongly opposed the deal despite the possibility of an extra 12 million pounds' worth of shares in his pocket. It was about so much more than price.

Kraft is hardly alone in its cockiness. Most managers think that they are better at finding and executing deals than their peers. Overconfidence is one of the most important cognitive problems as it induces us to come to incorrect conclusions without ever once questioning ourselves. According to the Cognitive neuroscientist Tali Sharot, 80% of human beings suffer from an overconfidence bias.[1] She points out that 2 out of 5 marriages eventually fail, but 0% of couples think their marriage could fail when they decide to get married, or in the words of Samuel Johnson, "Remarriage is the triumph of hope over experience."

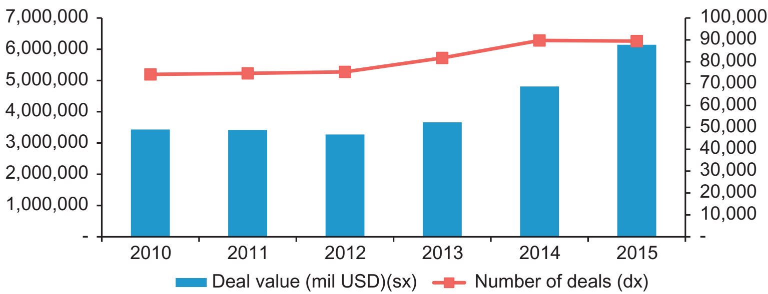
In many ways, the typical M&A deal is just like marriage. From experience, we know that too many M&A operations fail, but we seem to live in hope that the next one will provide value, despite the logic. So how can we inject a little bit of "self-doubt"? Isn't it risky to develop an M&A playbook that suggests we have everything under control? Is executing an M&A deal successfully something that can be learned? Yes. If not, we would not bother you with this book.

Of course, there is a consolidated stream of literature which suggests that increasing M&A experience has negative effects on M&A success. The reason is that firms tend to apply universal rules to very different deals, and this cookie cutter approach can be a recipe for failure. But if firms begin with the critical recognition that every deal is different, creating an M&A playbook and codifying past experiences will be beneficial for M&A success. Just be sure to resist the temptation of applying generic M&A rules blindly. Before you engage in M&A, make sure you have all stakeholders mapped out and establish a clear view on the various steps throughout the M&A process.

Never has the time for an M&A playbook been more necessary. Acquisitions remain a popular growth mode for many firms, as evidenced by the fact that 2015 has been one of the biggest M&A years ever, with a global value of about 4.7 trillion dollars of signed deals (Farrell, 2015). These 131 megadeals pushed 2015 ahead of 2007's total (Baker & McKenzie, 2015), when the previous record of $4.296 trillion of mergers was struck. Cross-border deal values in the fourth quarter of 2015 rose to the highest level ever recorded in a single quarter, fueled by megadeals such as the Anheuser-Busch InBev US$120.3 billion merger with SABMiller. Many of these deals included cross-border acquisitions, which amounted to 5441 deals, for a total value of US$1658.4 billion (Figure 1).

Unfortunately, many of those acquisitions are doomed to fail, and those losses will tally up to billions more dollars. It did not have to be the case. Disaster could have been averted if certain

Figure 1: Global Deals by Volume and Value.



Source: Elaboration on Bureau Van Dijk data.

steps had been taken even before their merger talks began and if these business leaders had access to, and followed the steps of this playbook.

The purpose of this book is therefore to reduce the number of acquisitions that are made for flawed strategic motives, with the wrong partner, using questionable valuations methods, and weak integration mechanisms.

There are many prominent examples of failure. The M&A "hall of shame" is composed of, among others, Daimler and Chrysler, Sears and K-mart, AOL and Time Warner, Quaker and Snapple, eBay and Skype, Sprint and Nextel, BMW and Rover, as well as Royal Bank of Scotland and ABN Amro. The motives of failure are many: cultural clashes, incompatible market positions, wrong assessment of the value of the synergies, sloppy due diligence, or hostile reaction of existing customers (Table 1).

But still, M&A can not only be a valuable option to grow, it is often the only alternative to obtain a strategic goal. Apple, for example, acquired around 50 firms from 2010 to 2016, most of them are software firms located in the United States. One could also argue that Prysmian's very DNA is based on other companies it had acquired in the past, dating back to its earliest years as Pirelli's cable division, but in more recent history, through

Table 1: Top 20 Announced Global Deals by Value.

	Deal value (mil USD)	Deal Type	Target	Target Country	Acquirer	Acquirer Country	Announced Date
1	160.000	Acquisition 100%	Allergan plc	IE	Pfizer Inc.	US	23/11/2015
2	131.730	Acquisition 100%	SABMiller plc	GB	Newco	BE	11/11/2015
3	78.700	Acquisition 100%	Time Warner Cable Inc.	US	Charter Communications Inc.	US	26/05/2015
4	67.876	Acquisition 100%	Altice SA	LU	Altice NV	NL	06/08/2015
5	67.000	Acquisition 100%	EMC Corporation	US	Denali Holding Inc.	US	12/10/2015
6	61.695	Acquisition 100%	EI du Pont de Nemours & Company	US	The Dow Chemical Company	US	11/12/2015
7	54.200	Acquisition 100%	CIGNA Corporation	US	Anthem Inc.	US	24/07/2015
8	52.761	Acquisition 100%	BG Group plc	GB	Royal Dutch Shell plc	GB	08/04/2015
9	43.482	Acquisition 100%	Nanyang Commercial Bank Ltd	HK	Cinda Financial Holdings Co., Ltd	HK	18/12/2015
10	41.928	Acquisition 100%	Cheung Kong (Holdings) Ltd's property businesses; Hutchison Whampoa Ltd's property businesses		Cheung Kong Property Holdings Ltd	KY	09/01/2015
11	40.500	Acquisition 100%	Allergan plc's Actavis global generic pharmaceuticals business	IE	Teva Pharmaceutical Industries Ltd	IL	27/07/2015

Table 1: (*Continued*)

	Deal value (mil USD)	Deal Type	Target	Target Country	Acquirer	Acquirer Country	Announced Date
12	40.000	Acquisition 100%	Kraft Foods Group Inc.	US	The Kraft Heinz Company	US	25/03/2015
13	37.700	Acquisition 100%	The Williams Companies Inc.	US	Energy Transfer Corporation LP	US	28/09/2015
14	37.446	Acquisition 100%	Cheung Kong (Holdings) Ltd	HK	CK Hutchison Holdings Ltd	KY	05/02/2015
15	37.200	Acquisition 100%	Precision Castparts Corporation	US	Berkshire Hathaway Inc.	US	10/08/2015
16	37.000	Acquisition 100%	Broadcom Corporation	US	Pavonia Ltd	SG	28/05/2015
17	37.000	Acquisition 100%	Humana Inc.	US	Aetna Inc.	US	03/07/2015
18	34.105	Acquisition 100% — Increase bid	Perrigo Company plc	IE	Mylan NV	NL	29/04/2015
19	32.000	Acquisition 100%	GE Commercial Distribution Finance Corporation; General Electric Capital Corporation's North American Vendor Finance business; General Electric Capital Corporation's Corporate Finance business	US	Wells Fargo & Company Inc.	US	13/10/2015
20	28.300	Acquisition 100%	The Chubb Corporation	US	ACE Ltd	CH	01/07/2015

Source: Elaboration on Bureau Van Dijk data.

Siemens, Nokia, NKF, and British Insulated Callender's Cables (BICC). There have been numerous other acquisitions of smaller firms, which were quickly absorbed into the Prysmian bloodstream, and a few strategic alliances, or joint ventures in emerging markets, with mixed results. But where the company excels is in taking control, leveraging the strengths of a business in areas where it was weakest, and discarding the rest.

So what is Prysmian? It is the world's largest cable company, with deep roots in industrial Italy, where it was part of the famed Pirelli group of companies before it spun off to become its own global entity more than a decade ago.

Because it is a business to business company, Prysmian's existence is relatively unknown outside of the cable industry for which it sets the bar. Few realize that the world simply could not run without the products that Prysmian develops, manufactures and installs throughout the globe — cables that are as necessary to connecting and powering our modern-day existence as the human body's nerves are to sustaining life. In effect, Prysmian specializes in building the central nervous systems of the world.

How? Prysmian is everywhere. Its energy cables are designed, produced, and sold for industrial applications such as the nuclear, oil, renewable energies, defense, mining, transportation (marine, railway, aviation, and automotive), aerospace and electro-medical industries. Prysmian also provides power transmission cable systems, such as high voltage underground and submarine cables and cable solutions for power distribution grids to transmission systems operators (TSOs) and utilities. Prysmian also produces cables for construction with special fire behavior characteristics that are essential in major commercial and residential properties, and services the telecommunications industry with multimedia cable solutions, optical cables, optical fiber, and copper cables. Prysmian's products make the world run. There simply is no major industry, city, power, or telecom infrastructure that

has not somehow been touched by the connective threads of Prysmian's cables.

In many respects, M&A has been the secret to Prysmian's success in an industry with limited organic growth opportunities, where margins are tough to maintain in a market characterized by price erosion. Its motivation in pursuing an external growth strategy through M&A was twofold: first, to seek efficiency gains in every corner of the company; second, to use the cash generated by these savings to acquire and restructure underperforming rivals to generate yet more cash to acquire the next firm, and the next …

"Our main strategy is to grow through acquisitions," notes Laurent Tardif, CEO Prysmian South Europe. "This is what we have always done and what we are good at: buying, digesting, generating cash by reducing fixed costs, reducing debt … and then starting the cycle again."

But Prysmian may be the exception that proves the rule. The high risks associated with acquisitions have induced some firms to strongly prefer organic growth alternatives. Ferrero, for example, doubled its revenues from roughly 5 billion Euros to 10 billion Euros without any major acquisition. Only very recently, Ferrero has decided to complement organic growth strategies with acquisitions. The main driver of growth of firms like Ferrero is product innovation and the ability to develop new customer segments.

M&A transactions could result in both kinds of growth drivers. But M&As tend to be riskier, since they often create more value for target firm shareholders than for the acquiring firm. The performance of acquisitions in terms of share value tends to show a positive effect for the target in the short run, but a negative effect for the acquirer (Andrade, Mitchell, & Stafford, 2001). Why is that? The reasons are several, and, more often than not, related to the emotions of those involved in the M&A process — a factor that does not appear to be present in the more gradual and calibrated process of organic growth. While in some cases you can

choose between M&A and organic growth, in others M&A remains the only way.

Many companies like Prysmian which operate in mature markets can't necessarily rely on Ferrero's strategy of organic growth. They lack the same opportunities of innovation or of an expanded customer base. Those businesses must ask themselves about the potential pitfalls of expansion through acquisition. So how does M&A potentially destroy value?

According to the academic literature, one of the biggest traps is managerial self-interest. Managers are empire building, creating conflict between property and control, driven by managerial hubris rather than by economic rationality. Managers and executives are often tempted to increase the size and scope of their power and influence and to increase the size of the company they manage through M&As is a way to do this. To increase the size of business units, their staffing levels and the dollar value of their assets are way for executives to acquire greater resource control and more personal power within the company. However, this does not mean to create value and wealth for shareholders, since resources are not always efficiently allocated.

Still, the game is worth the gamble. Indeed, thanks to diffused payment schemes, when the acquisition increases shareholder wealth, there is a significant increase in the compensation and wealth of the top executives — especially for the Chief Executive Officer (Lambert & Larcker, 1985). While the risk of a given transaction is particularly high for shareholders, the risk for managers is conversely very low, as good acquisitions increase compensation while bad acquisitions have no or little negative effect on theirs' wealth (Khorana & Zenner, 1998). With some exception. In Prysmian, more than 50% of employees are also shareholders. CEOs are discouraged to engage in wealth-reducing mergers only when they own a significant amount of shares (Bliss & Rosen, 2001).

Another reason why M&As destroy value is the departure rate of highly qualified executives. Voluntary turnover of target firms'

executives reveals an adverse selection phenomenon, namely that, often, the managers who leave are those who are the most prepared or qualified to see through the transition (Walsh & Ellwood, 1991). It is therefore essential to assess the management and clarify as soon as possible who will be on board and who has to leave the combined entity. At Prysmian, all managers (direct reports to the CEO and two levels beyond that) had been assessed with the support of a specialized firm. Within six months after the merger with Draka, the new organizational model was released and any uncertainty about who would lead what unit was eliminated. Ideally, the top positions should be discussed and assigned before the deal is signed.

Yet another reason for value destruction is culture. The role of culture and cultural differences in M&A can be controversial as it revolves around the need to find a meeting point between potentially very different personal and managerial styles. On the one hand, a common cognitive basis or shared background could enable better coordination (Puranam, Singh, & Chaudhuri, 2009). To have the same points of view and to share the way of doing things can create value in continuity with respect to how businesses were run before the transaction, without any major change. On the other hand, the combination of different cultures exposes firms to different routines that could enhance innovation and improve performance (Morosini, Shane, & Singh, 1998). Interestingly, it does not happen very often that a due diligence is interrupted because of cultural incompatibility. However, the circumstance has to be tied to the fact that often those who manage the process poorly omit to touch upon the topic, considering it less important than the financials or tax and legal aspects.

Prysmian, for its part, has not always executed its post-merger perfectly. The 1998 acquisition of part of Siemens cable division by Prysmian pre-cursor Pirelli resulted in a series of culture clashes between two companies with strong individual identities. Siemens, like Pirelli, started its cable business at around the same time, toward the end of the nineteenth century, and was just as global, with a presence from the United Kingdom to India.

"They started differently, in the same age, and for 100 years they were competing, then the two companies came together," observes Hakan Ozmen, CEO Prysmian North America.

The acquisition gave Pirelli's cable division a large presence in Germany, Romania, and Turkey — all huge markets for Prysmian today. But mistakes were made.

"We failed to integrate well," recalls Ozmen. "But we learned useful lessons and the result, ultimately, was success."

We'll discuss those specific lessons learned in the next chapters. But what is astonishing is that, on average, M&A performance over the years does not seem to have improved much among most players in this space. Many have not learned their lessons. And it seems that research results have little influence on the practitioners, perhaps because research is incomplete or maybe because firms do not invest enough time in learning how to conduct M&A. For many firms, M&A is an extraordinary event, a one-off so to speak, therefore they do not invest in building up dedicated resources and routines. Value destruction in many cases can be attributed to the missing human and organizational resources needed to reach the expected deal outcome. In particular, the non-existence of integration teams with consolidated work protocols is a critical weakness of merger-management, as it can be determinant in capturing synergies, clarifying decision-making criteria as well as structuring and communicating implementation plans.

In a recent McKinsey study on how CEOs can boost their odds of success (Birshan, Meakin, & Strovink, 2016), M&A is mentioned as the second most important strategic move of newly appointed CEOs after reshuffling of management. In many firms, M&A has become a more frequently used method of implementing corporate strategy. However, consultants from Bain found also that in 70%[2] of cases, companies grossly overestimate their synergies and fail to realize them in the post-merger integration phase. Firms, therefore, need to invest time in learning how to effectively engage in every aspect and stage of M&A.

One way to do so is to learn from the best, and we will try to extract some best practices in the pages of this book. In addition to Prysmian, the hall of fame of companies who have a proven track record in managing M&A includes companies such as GE, Cisco, InBev, or Apple. Unfortunately, there is no consensus about the impact of the frequency of acquisitions on performance. Despite research made by consultancy firms highlighting that companies that shopped frequently (high frequency of M&A transactions) performed better, academic research contested the role of experience in M&A as a capability-building mechanism (Rouse & Frame, 2009)

One of the reasons for the difficulty in understanding the impact of learning and experience on M&A success is that we don't have an agreement on how to measure M&A success. One of the most valid methods for evaluating any investment is the investor's required return, that is, the return that investors could have earned on other investment opportunities of similar risk. The assessment is relatively simple: value is created when the returns on the investment exceed the required rate of return. Value is destroyed when the investment returns fall short of the return rate required by investors. Value is conserved when investors earn the required rate of return.

As second way to understand the value of an M&A transaction is through event studies. A transaction (event) generates value when the following criteria have been fulfilled:

1. shareholders of target firms receive abnormally positive returns;
2. returns to buyer shareholders essentially break even and value is conserved; and
3. shareholders who invest in the combined entity formed by an M&A transaction receive positive returns.

Unfortunately, both methodologies have produced limited and non-generalizable results so far, while accounting studies on the value of M&A transactions provide little additional insights. A review of

existing studies shows that two report significantly negative post-acquisition performance, four report significantly positive performance, while other studies are in the middle, predicting no significant performance impact. Dennis Mueller, Professor of Economics at the University of Vienna (Mueller, 1980), generalized this situation by arguing that mergers have modest effects, up or down, on the profitability of merging firms in the three to five years following mergers.

Another method for assessing whether an M&A has created value is to ask the executives. But these surveys are also inconclusive: six of the 12 studies that we have reviewed suggest negative results. The remainder are neutral or positive. Interestingly, the better they felt about their own deals, the more they condemned M&A results in general. It is likely that those few who in the end obtained positive outcomes speak so skeptically about the achievable results because they are all too aware of the difficulties related to the process. In effect, they are giving us a warning.

This book will offer much more than the skepticism of existing academic research. Its purpose is not just to provide a playbook for M&A, but to equip managers with a healthy dose of "angst" when conducting acquisitions. We have seen too many management teams falling into the overconfidence trap. Too often, the executives we interviewed told us they had no idea that at least every second acquisition fails. But they are quick to rejoin with the statement, "We are not an average management team. We are better than all the other teams that have tried before."

If you still think your acquisition project is a good idea after having thought through the 53 acid tests presented in this book, you may well decide to go ahead.

DO WE NEED AN M&A PLAYBOOK?

Despite the "warning note" that M&A is risky, the appetite for M&A is still growing. So how can we prepare the organization

for the next acquisition? How can we learn how to effectively conduct M&A? Do we need a firm-specific M&A playbook? The M&A playbook is more than a checklist in a well-defined five-step process. It is a comprehensive guide that helps you to tackle the challenge of creating a strategy, identify targets, conducting a due diligence, negotiating and deal closing, as well as integrating the two entities in the post-merger phase.

We believe that a firm-specific M&A playbook is a must for all serial deal makers. You can learn how to conduct M&A. According to a study that was published in *Strategic Management Journal*, the use of specific systems, manuals, and other acquisition tools has a more tangible influence upon acquisition performance than experience alone. "Knowledge codification strongly and positively influences acquisition performance, while experience accumulation does not,"[3] the study concludes.

An M&A playbook codifies past experiences and helps managers to reflect about what has worked well and what has not. And, of equal importance, it establishes routines for the next acquisitions — a shared reference point for designing and implementing the next deal. An M&A playbook can guide due diligence and integration teams in areas that commonly need to be addressed (such as sales and marketing, supply chain, or back office functions). The playbook can be amended through the M&A process, and through various deals over time. It should be considered as an asset of the firm, a key tool to institutionalize learning for future acquisitions.

The main reason why creating playbooks sometimes generates bad results is the rigid application of the rules that have been distilled from past experiences. But if you recognize that there is no "dominant logic" to be applied to all deals and work out variation of rules according to M&A archetypes, an M&A playbook will create value. The playbook is a living, breathing document and the "plays" can change according to the unique circumstances

of a deal, just like when coaches adapt their moves to the new tactics of defense in a football match.

Researchers at the University of California and the Tuck School of Business found[4] a U-shaped relationship between a firm's acquisition experience and acquisition performance: the more similar a firm's acquisition targets are to its prior targets, the better they perform. Therefore, the distinguishing characteristics of each M&A event have to be considered. Businesses can leverage their past M&A experience only by increasing their awareness of relevant differences in the acquisition process. We can think of at least eight distinct M&A situations that require a firm to adapt a particular M&A strategy and process:

1. *Business relatedness*. Firms could acquire business beyond the borders of their industries. After the historic evidence of the failure of the "big conglomerates" model (Davis, Diekmann, & Tinsley, 1999), strategic thinking has focused on how diversification based on related resources (Rumelt, 1974), whether similar or complementary (Bauer & Matzler, 2014), creates value.

2. *Geographical distance*. The geographic location and proximity of firms is an important factor that impacts the cost of searching for targets and integrating acquisitions (Chakrabarti & Mitchell, 2008; Green & Cromley, 1984; Hauptman & Hirji, 1999). This is particularly true in horizontal acquisitions, where economies of scale and scope are achieved through the redeployment of R&D, manufacturing, marketing, managerial and financial resources (Capron, Dussuage, & Mitchell, 1998). Geographic distance increases monitoring costs and may reduce the potential for local monopolies (Grote & Umber, 2006). It increases the difficulty of effective communication (Cummings, 2007) and raises the cost of seeking and integrating knowledge (Cummings & Ghosh, 2005; Borgatti & Cross, 2003). Thus, the proximity factor will influence whether the bidding party should undertake these particular acquisitions.

3. *Mood of the bid (friendly versus hostile takeover)*. Even if hostile takeovers are covered by the press much more than friendly takeovers, they account only for 10% of all the acquisitions (Cartwright, 2012). As researchers at the Cranfield School of Management and the Department of Economic Development in Dubai confirm,[5] no differences between friendly and hostile takeovers can be observed regarding the successful outcome of the deals. The bidder's behavior seems unrelated to previous acquisition experience. That said, hostile takeovers can reduce bidder gains by almost 8%. This loss could be explained by the fact that the premium is larger or because takeover defenses have made the target firm less valuable (Servaes, 1991; Pound, 1988).
4. *Big versus small deals*. The size of deals refers to the relative size of firms, so a big deal is worth 30%+ of an acquirer's market cap. Size is an important determinant of M&A activity, as managers are driven by the desire to increase the firm's size and thus secure their private benefits. Bigger size can be seen from two different perspectives: on the one hand it can discourage peers to engage in a large, complex deal, on the other hand, a bigger target could be more attractive for a takeover (Gorton, Kahl, & Rosen, 2009). Usually, larger firms takeover smaller ones. Big acquisitions can be tough to finance. As compared to smaller deals, it is much more difficult to raise funds by issuing debt, and the increasing amount of debt can substantially increase the chance of financial distress (Gilson, 1989). Also, the alternative to finance the acquisition of a large company with stocks can dilute the buyer's ownership and lead to a loss of control. Thus, the probability of being a target decreases as a firm's size increases (Hasbrouck, 1985; Palepu, 1986). Bigger deals are more complex for the acquirer and can seriously damage the firm if the deal fails to deliver the expected outcome. Small deals, by contrast, could be beneficial when the acquirer has sufficient capacity to integrate

smaller-sized companies and succeed in consolidating markets in which competitors cannot achieve the same economies of scale (Agrawal, Ferrer, & West, 2011). In sum, a recent study by McKinsey[6] consultants has shown little difference in performance as measured by excess total returns to shareholders (TRS), whether firms engaged in one big deal, many small deals, or few deals. The TRS does not depend upon the size and frequency of transactions so much as the buyer's capability to identify, evaluate, integrate, and manage the target.

5. *Private company versus state-owned company*. Privatization is a process in which the private sector takes ownership and control of publicly owned institutions. From the government's perspective, the reasons for selling can be several, such as raising revenue for the state, reducing public debt, reducing government interference in the economy, or introducing market competition, subjecting state-owned enterprises to greater market discipline (Surendranath & Thanh, 2014). From the bidder's perspective, the benefits can include access to a restricted market, access to strategic resources such as political support, capital from state-owned banks, and eligibility to bid for government procurement contracts. Improvement in efficiency of the former state-owned enterprise can also represent a significant opportunity for the bidder as well as government privatization policies. Still, there are some typical risks that need to be addressed. Lack of accounting transparency and excessive window dressing can distort the valuation of the target. Considering the counterpart in these specific transactions, negotiations can be time-consuming and subject to opportunistic behavior (Cooke, 2006). Moreover, Noble Foundation Professor of Finance Rafael La Porta highlights (La Porta, Lopezde-Silanes, Shleifer, & Vishny, 1997) that the winner in these transactions is the one who is willing to make the highest bid, suggesting that the successful bidder is more likely to

overpay for his target. In addition, a private firm which was previously state-owned frequently experiences strikes and civil disobedience, both in the negotiation phase and in the post-closing phase, increasing post-acquisition costs. Post-acquisition political interference appears to be also commonplace (Uhlenbruck & de Castro,1998).

6. *Excellent firm versus turnaround case*. Selling out may be the most commonly chosen alternative for organizations in which internally directed turnaround efforts have failed (Bibeault, 1982). Several factors may make the acquisition of a distressed firm attractive to a buyer. Basically the deal rationales can be similar to that of acquiring healthy target: business combination to increase market power (Chatterjee, 1986; Hitt, Harrison, Ireland, & Best, 1998), economies of scope deriving from shared resources such as distribution network (Seth, 1990), economies of scale and cost savings deriving from integration of activities, and diversification of the asset portfolio. The differentiating element here is that the management of the bidder must be able to identify the target's dysfunctions and be sure to have the right tools to correct them. A distressed situation has obvious effects on the price of the target and this represents a significant opportunity for the deal once the factors to be corrected are identified. If a buyer can be found with special competence or a good strategic fit, an acquisition may be beneficial for all parties (Hambrick, 1985). Some firms are distressed not because they lack resources but because they have made an improper use of them. Thus, the managers of a potential acquirer might be attracted to a poorly managed target with valuable resources and make a change in management once the deal is completed.

7. *Listed company versus family-owned company*. One key difference between private and public firm acquisitions is the quantity and quality of information available on private versus

public targets. Due to the legal and market requirements — initial public offering (IPO) processes, regulatory disclosure requirements, relationship with investment banks, coverage by analysts and the press — we have a lot of information available about firms with publicly traded stocks. Uncertainty about their value is much lower if compared with the valuation of private firms, which typically have more control on the information they want to communicate (Reuer & Ragozzino, 2007). Indeed, we have pricing made by the market as a reference for evaluating the target with listed stocks. In effect, the market provides a system of transparency and asset valuation that is available to all the bidders, and can be a useful complement to the buyer's own resources when it comes to researching and analyzing the value of a target. By contrast (Capron & Shen, 2007), private targets are less visible and transparent to the investment community and are consequently more difficult to evaluate since it is more complicated to signal value to the market (Becchetti & Trovato, 2002). Accordingly, acquirers incur higher search costs while sellers have to increase their marketability. One result of this is the so-called "private firm discount." The reduced transparency of the information on the target makes the valuation riskier and decreases the appetite of bidders to pay high prices. In addition, existing literature justifies the "discount" with the relative lack of market liquidity for private firms (Fuller, Netter, & Stegemoller, 2002). Indeed, the existence of an active market for shares of public firms makes it easier for a seller to find a counterpart. Shares of private targets conversely must be sold to specific buyers, who are difficult to identify. As in any market, the lack of demand can be balanced only by a change of the conditions of the offer and from this derives the "discount." Some authors find that private firms are purchased at an average 18% discount in terms of book multiples, or 20–30% discount in terms of earnings multiples compared to equivalent public firms (Koeplin, Sarin, & Shapiro, 2000).

8. *A company you have known as partner for many years versus a firm you don't know at all.* Dealing with already-known business partners certainly provides deeper and more extensive knowledge of the wide range of information needed to run an M&A transaction. Starting from the assessment of the deal rationale in terms of strategic objectives to be fulfilled, and going through the post-merger integration phase, an already-known business partner is capable of providing a proxy of the results obtainable from the deal. In other words, it provides insights on how suppliers and customers perceive the target in the relevant markets, as well as the credibility and robustness of past results and forecasts. It also generates awareness about existing cultural aspects and the way things are handled while decreasing the likelihood that unforeseen factors can emerge after the closing, undermining desired results. Once the strategic fit and the goals are assessed, an existing business partner who has already proved to be reliable seems to be a safer solution for the deal. Still, a Chinese proverb states that, "If you do things you've always done you will arrive where you have already arrived." Often the "unknown" can provide unique and valuable resources to further expand performance and to strengthen competitive advantage.

The above list shows only a few important factors that need to be considered when adapting the M&A playbook to the specific deal context. Of course, every deal is different, and it is difficult to separate causal relationships between integration decisions and their performance outcome. But a playbook can at least lay the necessary groundwork for smart tailoring (Cording, Christmann, & King, 2008). Medical doctors recognize that each patient is unique but still apply certain guidelines and standards when they treat patients. Diagnosis and treatment are influenced by broad categories such as gender, age, weight, lifestyle, or genetics. An M&A playbook should work the same way.

Learning how to conduct M&A is optimized if acquirers first focus on homogeneous acquisitions and then move on to more heterogeneous ones (Barkema & Schijven, 2008). As stated earlier, prior acquisition experience does not necessarily improve post-acquisition performance, but the degree to which acquirers articulate and codify their experience in *ad-hoc* tools does (Zollo & Leshchinkskii, 2000).

As in acquisitions, the management of strategic alliances can also benefit from a dedicated playbook. An alliance learning process that involves articulation, codification, sharing, and internalization of alliance management know-how is positively related to a firm's overall alliance success (Kale & Singh, 2009). Prashant Kale, Associate Professor at Rice University, and Harbir Singh, Mack Professor of Management at Wharton, have demonstrated that firms with a dedicated alliance function, which oversees and coordinates a firm's overall alliance activity, have greater alliance success. Is this true for M&A as well?

DO WE NEED A DEDICATED M&A TEAM?

The playbook defines the roles and responsibilities of the actors involved. One of the most critical decisions firms need to take in relation to their M&A activity is oversight. It's a choice between delegating activities connected to the deal to a dedicated team, or charging line managers with the task of managing the deal, supported by consultants.

Some acquirers, such as Cisco, GE, and Barilla, have built a standing, experienced deal team that gets involved in all acquisitions. Ideally, such a team allows the company to create opportunities proactively, or to strike rapidly when the right deal becomes available. This dedicated group should be responsible for creating formal procedures for M&A processes, with clear guidelines for the purchase and the integration of acquisitions. The team is then

able to update its codified guidelines at the end of each deal through a post-mortem analysis (Cullinan, Rovit, & Tymms, 2003). The M&A team should be complemented by an integration manager with the authority to list priorities, coordinate taskforces and set the pace, spending about 90% of his or her time on the integration.

The decision to work with a dedicated team and an integration manager depends on several factors: the frequency, complexity and size of deals, as well as the experience of managers. The advantages of having a dedicated team are many. All processes are most likely to be addressed more efficiently, with more experience, especially if codified in an M&A playbook and adapted to the deal context, and — most importantly — with more time since the team is dedicated to that function and there is no element that might distract them from this work. For line managers, most M&A tasks are new and the likelihood of making mistakes is high. Some firms, like the Mexican Cement producer Cemex, create mixed teams of M&A veterans and young, high-potentials. This way the M&A process and in particular the post-merger integration phase can be leveraged as an in-company training program, providing a 360° view on the firm.

Of course, there are also negative implications to this approach. By separating the negotiator from the integrator, for example, the likelihood of frictions in the implementation phase increases. In addition, managers who know they have to integrate the business afterward are likely to ask the right questions in the due diligence phase and are probably more realistic when estimating synergies and discussing post-merger scenarios. It is therefore essential to find a way to use specific knowledge of a dedicated M&A team for the benefit of line managers that need to take over after the M&A specialists have left.

Within this trade-off, the optimal deal team therefore brings a diverse range of skills, functions, and expertise together. The seats at the table should ideally be:

1. *An overseer of corporate development*: to assess strategic rationale to set the structure of the deal and to manage the relationship between the bidder and the seller and their respective advisors.
2. *An internal sponsor*: an executive of the company who identified the target due to its supposed strategic fit with the bidder, who helps to formulate hypothesis related to the future evolution of the company through the supposed acquisition.
3. *A transaction approver*: often the CFO, who assesses the overall financial effect connected to the transaction and helps to arrange financing as well as to check for strategic alternatives.
4. *An integration team*: responsible for fast integration of target's employees, operations, and processes within the bidder's existing structure.
5. *External advisors*: individuals with specific skills who can assist with all aspects of commercial, operational, and technical due diligence and integration.

If the size of the transaction is strategically relevant to the buyer, the core management team is intensively involved in M&A activities since the initial study phase. The General Cable acquisition example demonstrates that the management involvement is higher in cases of tender offers.

WHICH STAKEHOLDERS HAVE TO BE CONSIDERED DURING AN M&A PROCESS?

Companies often consider the owners of both target and buyer to be their only stakeholders. The possible consequences of such an assumption can be demonstrated by Shell's planned sinking of the Brent Spar oil rig in the 1990s. Once it was decided that the oil platform was no longer viable, Shell received full support from the UK Government to dump the plant into the Atlantic Ocean.

Overnight, environmental groups, such as Greenpeace, became the company's most important stakeholders, much to the surprise of Shell. Indeed, activists occupied Brent Spar. Massive audience was captured from the images of activists being attacked with water cannons and spontaneous protests broke out in Europe. Some Shell stations reported a 50% loss in sales and as public attention grew, the company forced itself to convert the decision and to dismantle the asset on the mainland. To prevent such unforeseen setbacks, all groups that might have an interest in the company and in the specific M&A deal should be listed and sorted according to their power to influence the outcome, and the nature and strength of their interest in the deal.

The list of potential stakeholders that need to be considered is long and includes, but is not limited to:

1. *Financial advisors*. The choice of the merger advisor can be critical in determining the wealth gains to both targets and acquiring firms Wealth gains to shareholders in the form of stock returns tend to be larger when either the target or the bidder uses a first-tier investment bank advisor, so credibility is key. The number of advisors employed in a given transaction can also determine the probability of completing a deal, even if the increased number of advisors adds complexity to the transaction and requires significantly more time for deals to be completed (Hunter & Jagtiani, 2003). While tier-1 advisors are more likely to complete the deals, and in less time, post-merger gains realized by the acquiring firms in these mergers actually seem to decline. However, larger total advisory fees paid were found to be associated with larger post-merger gains. We believe that a small number of tier-1 advisors who are able to bring different functions and integrate outcomes is the best solution when the process is carried out with a bidder that balances at each step the advisor's perspective with its industrial point of view (Table 2).

Table 2: Top 20 Financial Advisors in 2015 Global Deals.

	Financial Advisor	Number of Deals	Number with Consideration	Total Deal Value (mil USD)	Average Deal Value (mil USD)
1	Morgan Stanley	307	273	1,459,842	5,347
2	JP Morgan	282	256	1,356,946	5,301
3	Goldman Sachs Group Inc.	205	187	1,240,860	6,636
4	Bank of America Corporation	213	191	933,850	4,889
5	Credit Suisse	195	163	797,958	4,895
6	Citigroup Inc.	242	212	632,488	2,983
7	Barclays plc	103	90	589,598	6,551
8	Lazard	186	147	542,377	3,690
9	Centerview Partners	35	32	457,710	14,303
10	Deutsche Bank AG	144	123	420,295	3,417
11	Guggenheim Securities LLC	23	20	325,904	16,295
12	UBS	138	128	303,573	2,372
13	Rothschild	276	186	293,793	1,580
14	Evercore Partners Inc.	92	79	281,795	3,567
15	Moelis & Company LLC	95	69	231,980	3,362
16	BNP Paribas SA	71	58	219,957	3,792
17	Robey Warshaw LLP	3	3	184,952	61,651
18	HSBC Bank	53	46	181,844	3,953
19	RBC Capital Markets Corporation	74	61	122,215	2,004
20	Allen & Company Inc.	16	16	105,833	6,615

Source: Elaboration on Bureau Van Dijk data.

2. *Legal advisors*. This refers to the law firms that provide technical advice critical to the negotiation and closure of the deal. They act as counsel to the firms or to the financial advisors involved in the acquisition process. In rare cases, legal advisors are involved in the pricing and financing stages, or throughout the critical post-acquisition integration process. Consequently, they bear a narrower risk in the acquisition process than do financial advisors (Perrini & Russo, 2006) (Table 3).

3. *Private equity providers*. PE funds are financial investors who buy companies with the goal of reselling them (alone or as part of a group of acquired entities), in order to realize financial gains on the equity invested. Usually, these buyers have in mind a holding period of three to seven years and expect a return on equity (ROE) of 20–25%. Recently, equity investors have also been acquiring industrial and operational knowledge, but they mainly create value through top executive hiring, cost reductions, management incentives, strict control of accounts, and governance. The transactions are usually financed by large amounts of leverage (e.g., leveraged buy out (LBO)). In the past few years, PE firms formed so-called private equity groups (PEGs) to do even larger deals that their massive funds could support on a stand-alone basis, because of the concentration limitations on any investment. These “clubbing” initiatives benefit the group as a whole by reducing competition from other bidders, resulting in lower prices (Table 4).

4. *Antitrust authorities*. The merger of major companies might lead to an increase in a given industry’s concentration, triggering various anti-competitive practices, such as price increases at the expense of consumers. This “market power hypothesis” or “market concentration doctrine” (in the United States), is the central focus for worldwide antitrust authorities (Aktas, De Bodt, & Roll, 2007). For this reason, where discussions regarding M&A possibilities are taking place between competitors in

Table 3: Top 20 Legal Advisors in 2015 Global Deals.

	Legal Advisor	Number of Deals	Number with Consideration	Total Deal Value (mil USD)	Average Deal Value (mil USD)
1	Skadden Arps Slate Meagher & Flom LLP	268	200	926,293	4,631
2	Cravath Swaine & Moore LLP	73	53	551,556	10,407
3	Wachtell Lipton Rosen & Katz LLP	65	58	544,359	9,385
4	Weil Gotshal & Manges LLP	176	102	510,949	5,009
5	Latham & Watkins LLP	279	194	492,580	2,539
6	Clifford Chance LLP	176	133	452,814	3,405
7	Sullivan & Cromwell	92	80	435,648	5,446
8	Simpson Thacher & Bartlett LLP	145	125	337,310	2,698
9	Linklaters	99	66	319,832	4,846
10	Freshfields Bruckhaus Deringer	109	94	295,769	3,146
11	Kirkland & Ellis LLP	311	151	293,745	1,945
12	Cleary Gottlieb Steen & Hamilton LLP	46	42	248,063	5,906
13	Jones Day	324	175	231,556	1,323
14	Hogan Lovells	132	73	228,690	3,133
15	Morgan Lewis & Bockius LLP	148	81	222,823	2,751
16	King & Wood Mallesons	234	207	215,369	1,040
17	Davis Polk & Wardwell LLP	104	87	214,574	2,466
18	Arthur Cox	5	5	204,805	40,961
19	Slaughter and May	77	65	196,417	3,022
20	A&L Goodbody Consulting Ltd	7	4	194,337	48,584

Source: Elaboration on Bureau Van Dijk data.

Table 4: Top 20 Private Equity Firms in 2015 Global Deals.

	Private Equity Firm	Number of Deals	Number with Consideration	Total Deal Value (mil USD)	Average Deal Value (mil USD)
1	Temasek Holdings Pte Ltd	28	26	93,215	3,585
2	Silver Lake Technology Management LLC	22	21	88,514	4,215
3	MSD Capital LP	3	2	67,060	33,530
4	Canada Pension Plan Investment Board	22	23	65,221	2,965
5	The Blackstone Group LP	36	32	63,445	1,983
6	Carlyle Group LP	71	48	54,870	1,143
7	3G Capital Partners Ltd	1	1	40,000	40,000
8	TPG Capital Management LP	30	25	37,673	1,507
9	Kohlberg Kravis Roberts & Company LP	54	40	32,269	807
10	Warburg Pincus LLC	46	38	27,959	736
11	Bain Capital LLC	23	16	22,707	1,419
12	Permira Advisers LLC	2	2	22,000	11,000
13	BDT Capital Partners LLC	6	5	21,900	4,380
14	GIC Pte Ltd	18	17	18,251	1,074
15	Providence Equity Partners LLC	13	8	13,752	1,719
16	Apollo Global Management LLC	20	17	13,434	790
17	Shanghai Trust Bridge Partners Investment Management LLC	13	12	12,667	1,056
18	Global Infrastructure Management LLC	7	5	12,662	2,532
19	Tiger Global Management LLC	72	66	12,435	188
20	Goldman Sachs Group Inc.	42	35	12,120	346

Source: Elaboration on Bureau Van Dijk data.

same-served market segments, great care must be exercised between parties over what may and may not be discussed pursuant to government regulations (e.g., US: Federal Trade Commission, EU: Competition Commission).

5. *The board of directors*. The involvement of the board of directors in the M&A process can add significant value. This group's independence from daily operations, along with its long-term perspective, enables it to challenge the tendency of management to emphasize income statements over balance sheets. In addition, the board is not influenced by budget targets. More risk-tolerant, the board may consider and support aggressive deals with longer-term returns. An early involvement of the board can also be helpful in speeding up internal decision-making processes. Bringing board members in from the beginning can also increase the deal's successful outcome by enabling the management to focus more on capturing value instead of securing the board's approval (Bhagat & Huyett, 2013).

6. *Employees*. Employee concern is a central issue of the M&A process. A study also published on Academy of Management[7] identified five major employee concerns in an M&A deal:
   - loss of identity;
   - lack of information;
   - obsession with self-survival;
   - loss of talent; and
   - family repercussions.

   Moreover, employee distraction can act as a force that could derail a deal. Keeping frontline employees focused on the base business to defend against competitors, while allocating no more than about 10% of managerial talent to the integration effort, can be a determining factor in the merger's success (Vestring, Rouse, & Rovit, 2004).

7. *Unions*. In countries where trade unions or other employee's representative organizations have formal influence on corporate governance (e.g., works councils in Germany), opposition to the deal by employees may suggest implementation difficulties, discourage the bidder and determine the transaction's negative outcome.

8. *Customers*. "It's very easy to forget the consumer during a merger," says Mark Addicks, Chief Marketing Officer at General Mills. Loyalty is a volatile sentiment in developed markets and even the changes that derive from a merge can result in a big difference to customers, who in turn are prone to shift their preferences between different competitors. In this sense, customer defections contribute to the M&A's high failure rate. Once a client becomes dissatisfied, the time needed to regain lost ground can be long. That's the conclusion of a study implemented by University of Michigan for *Business Week* (Thornton, Arndt, & Weber, 2004) and based on data which collected customers' perceptions of 28 big companies that were involved in major mergers. Results showed that customers who were asked to rate a company's performance in terms of prices, quality, and company's ability to meet their expectations were significantly less satisfied on average than they were before the acquisition, mainly due to a perception of lack of choice, and this frustration continued for two years after the deal closed. Only 29% of customers said they got better service or positive effects on prices after the merger. Worst results were obtained where the transaction involved industries whose services have greater impact on the everyday life of consumers. Generally, customers look for consistency in service across both merged companies from the start. Current and future performances of the company are based on its capacity to meet customers' needs. For this reason, initiatives that can improve customer retention are fundamental for success. To be successful, Laura

Miles and Ted Rouse from Bain & Company suggest that acquiring entities:

- Adopt specific customer metrics to track performance and include customer retention initiatives within the deal model that include personal visits by relationship managers, letters to retail customers, and a significant marketing investment aimed at explaining how the transaction will benefit the customer.
- Embed consideration of the customer experience as an integral part of merger planning as well as the integration process after the deal has closed. Create a team focused on the customer experience and assess the effects of each decision on each costumer.
- Identify and accelerate actions to improve the customer experience or increase the value of your offering to them. Clients always expect to benefit in terms of quality or prices, or both. Meeting these expectations as soon as possible is the basis for customer satisfaction.
- Communicate and listen. Avoid customers' misperceptions of certain events with transparency; bundle bad news with positive information so that the information can be absorbed with a greater sense of balance and perspective.
- Empower employees. Satisfied employees equal happy customers. Mergers create stress for employees. At the same time, the need to deliver an exceptional experience to customers during a time of change is high, since customer retention is crucial for performance. Accordingly, empowerment of frontline personnel can be vital in transmitting perceptions about the company to clients.

In most merger situations, there are several other stakeholders that need to be considered: governments, investors, intermediaries, suppliers, regulators, and communities in which the merging

companies have important facilities. An example of the impact of governments on the success of M&A projects is the Pfizer-Allergan merger, which was based on the logic of tax-inversion — the relocation of a corporation's legal domicile to a lower tax-nation while maintaining operations in the country of origin.

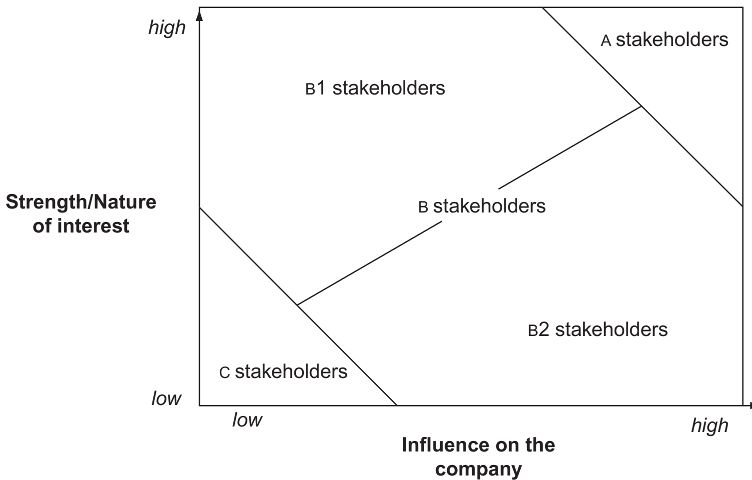
This particular M&A made it to the top of our list of announced mega-mergers in Table 1 in part because it typifies a trend in US corporate deal making, representing increasing concern to the US Administration. In fact, after the Obama administration heavily criticized the biggest drug company operating in the United States for its proposed move to Ireland to lower its taxes, Pfizer has decided to kill its $160 billion takeover of Allergan PLC. On top of renouncing to the deal, Pfizer had to pay Allergan a breakup fee of $150 million for reimbursement of expenses associated with the transaction.

One of the main competitive disadvantages the company is facing with respect to its main competitors is its significantly higher tax rates. By combining with Irish Allergan, not only could Pfizer have cut its tax rates, it could have gained access to revenues it was keeping overseas in order to avoid paying taxes in the United States, on top of the taxes it had already paid in foreign countries. In addition, Pfizer could have expanded its portfolio of high-growth products with Allergan blockbusters such as Botox, dry-eye treatment Restasis, and irritable-bowel drug Linzess.

The main challenge for senior managers is therefore to identify key stakeholder groups and actively manage them. They can begin by mapping them in a table defining the stakeholders and, if possible, specific people, and understanding the nature and strength of their interest and influence on the M&A deal, as well as potential communication strategies. This list can then be converted into a stakeholder matrix (Figure 2), which allows for the classification of stakeholder groups.

Once all the stakeholders are properly monitored and addressed, with their potential influence on the deal taken into

Figure 2: Stakeholder Matrix.



Notes:

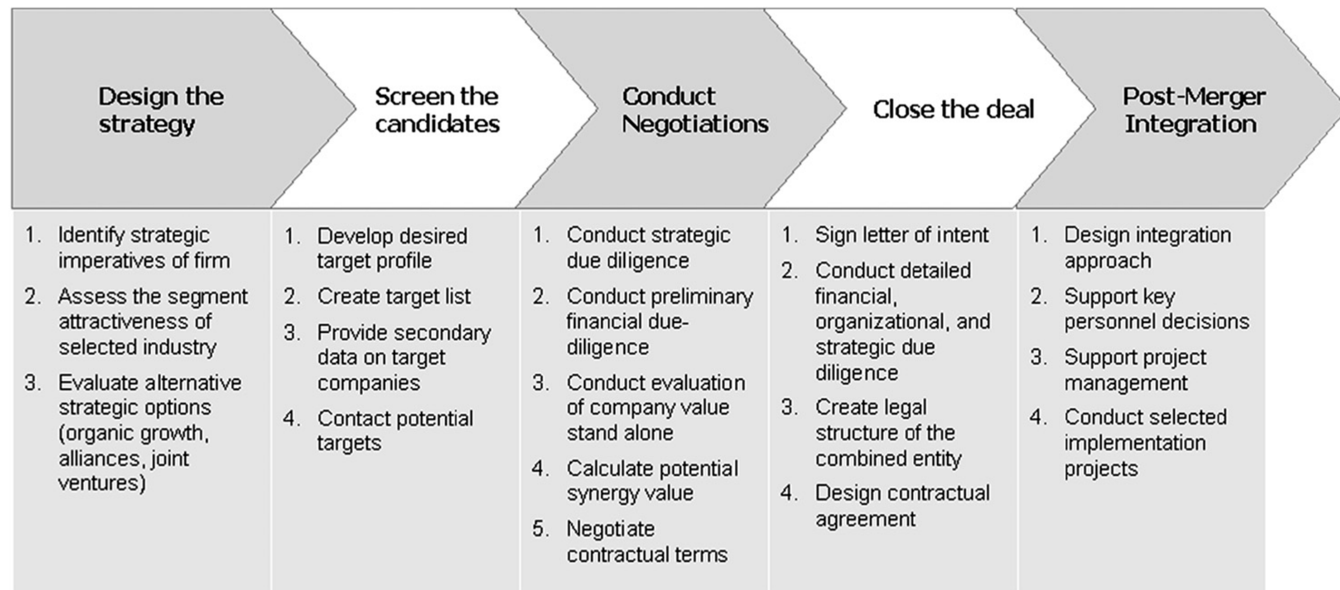
- *A stakeholders* have a strong interest in the M&A deal and a significant influence on it. Therefore, this group must be involved early on in the decision process and be kept fully informed.
- *B1 stakeholders* have a strong interest in the deal but no great influence on it. If the stakeholders' attitude to the M&A strategy is positive and supportive, possible ways of enhancing this group's influence should be examined.
- *B2 stakeholders* have a weak interest but exert great influence on the M&A deal. The information policy is basically reactive. By providing selective information, the company can try to arouse positive interest and prevent negative interest.
- *C stakeholders* have a weak interest and little influence on the deal. The company is passive toward this group in its information policy and does not put together any specific information for it. This group is therefore not actively involved in the information policy but it is monitored for changes in interest or influence status.

due consideration and proper counter-actions developed, management should have a thorough idea of the obstacles the company will need to tackle if they move ahead with an M&A transaction.

WHAT ARE THE MAIN PHASES OF M&A?

As depicted in Figure 3, there are five main M&A phases a company needs to manage when dealing with the acquisition of another entity. The fundamental concept to start with is that an

Figure 3: A Generic M&A Process Model.



acquisition is not a strategy, but a means to obtain a strategic goal. The first phase in an M&A process is therefore always the definition of a value-generating strategy. Prysmian, for example, bought Draka mainly to consolidate the industry and create efficiencies. Microsoft bought LinkedIn to realize synergies for Microsoft's Office productivity suite and LinkedIn's social network. Strategic objectives should always be the trigger for M&A — unless someone offers you a bargain that is hard to refuse, like buying a flat in the center of New York for $2,000 per square meter.

Once a strategy is defined and alternative options to implement that strategy have been excluded, a profile of the ideal target company can be developed as a second step. This profile builds the basis for screening candidates and gathering initial secondary data on potential targets. After having created a short list of firms that could be contacted, negotiations can start. These discussions can lead to deal closing and post-merger activities as well as deal failure and the need to restart the process again.

The relationship between each phase of the process, from target selection to due diligence and negotiation, can be especially delicate, and one phase predicates the successful outcome of the next. For this reason, each phase must be consistent with the overall objective of the deal to avoid the risk that deal-breaking factors can emerge that could interrupt the process.

The main reasons for interrupting the process include:

- the analysis shows that the target does not fully meet the requirements demanded by the strategic rationale of the project;
- the results of the financial evaluation do not make it a viable alternative;
- the analysis of possible synergies with the target predicts unacceptable or highly risky results; and

- other problems arise in the due diligence process that would justify an abandonment of the considered alternative, or a revision of rationale.

But let's start from the beginning: where does your company want to be 5–10 years from now, and how will it get there?

NOTES

1. https://www.ted.com/talks/tali_sharot_the_optimism_bias
2. Miles, Borchert, and Ramanathan (2014).
3. Zollo and Singh (2004).
4. Haleblian and Finkelstein (1999).
5. Sudarsanam and Mahate (2006).
6. Cottin, Rehm, and Uhlaner (2011).
7. Ivancevich, Schweiger, and Power (1987).