

# THE NEW BUSINESS CULTURE



New Approaches  
to Mergers and  
Acquisitions

**FONS TROMPENAARS  
PETER WOOLLIAMS**

NEW APPROACHES TO MERGERS  
AND ACQUISITIONS

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# NEW APPROACHES TO MERGERS AND ACQUISITIONS

BY

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INVESTOR IN PEOPLE

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## RATIONALE FOR THE SERIES

The business environment continues to change ever more rapidly. Established practice is constantly challenged in our post-COVID-19, climate-changing, technology-driven world, leading to the further proliferation of digitalisation, new flexible ways and places of working, leadership styles, diversity, etc. All areas of business and management are finding that traditional frameworks for organisation design, marketing, HR, and other functional disciplines no longer provide models for best practice. Not only driven by such changes in the external environment but together with the differing value systems of younger generations, there is an urgent need to provide new frames of reference that can help formulate new business strategies whilst synergising with the career aspirations of the labour market.

The New Business Culture is a series of micro-books with each addressing an area of business and management that seeks to demonstrate how and where established traditional models and frameworks are no longer providing optimum frameworks for a purpose that informs the range of subject areas discussed. The authors offer new approaches that transcend convention.

In this series of volumes, each distils the essential elements of a key topic and retains focus and purpose and seeks to offer new approaches to overcome the limitations of existing practice.

The content and new concepts therein originate from the synergy between the authors' own fundamental research (including supervision of PhD students) triangulated with evidence and application from their extensive client base in their consulting practice (THT Consulting, Amsterdam).

Purchase of each volume in the series includes exclusive access to a corresponding companion app. Each app enables readers to explore the application of specific concepts in further detail for individual volumes and what it means for them and/or their organisation.

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## THE LIFE CURVE IS HERE TO STAY

Stakeholders/shareholders, chief executive officers, leaders, and students of management and business studies always come across the 'life curve' at some time, but with routine day-to-day demands, it gets lost to their background due to all the other challenges they face. But eventually it catches up with us all. Organisations go through several phases from birth, growth, maturity, and death like every living organism. However, in theory, organisations can be immortal contrary to live organisms. For immortalising their existence, organisations have to manage organisational growth processes successfully, faced by differing demands in multiple ways, including through alliances, mergers, and acquisitions.

Larry E. Greiner in his famous *Harvard Review* paper 'Evolution and Revolution and Organizations Grow and Develop' described his model for a series of five key stages through which organisations progress, but he failed to develop a crisis paradigm for the last phase of maturity.<sup>1</sup> In general systems theory, organisations are classified as 'open systems' – that is, systems that have external interactions with the environment. By virtue of being an open system, they develop mechanisms to monitor the external environment – competitors, evolving legislation, changing value systems of clients, customers and employees, technology, and worldly events. Organisations, like Darwin's natural selection, respond to such influences by evolutionary processes that seek to exploit such changes or nullify any damaging threats.

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1 Greiner, Larry E. (May–June 1998). "Problems faced by organizations as they grow and develop". *Harvard Business Review*.

### VIGNETTE: EXAMPLES OF EXTERNAL DEVELOPMENTS AFFECTING ORGANISATIONS

The Swiss (mechanical) watch industry was caught unawares in the 1960s when all watches were mechanical and no country was producing the precise movements required for top quality timekeeping better than Switzerland.<sup>2</sup> They experimented with quartz, but feared its threat to their traditional advantages. There had been 1,600 watchmakers that by 1970s had declined to 600. In March 1983, the two biggest Swiss watch groups, ASUAG (Allgemeine Schweizerische Uhrenindustrie AG) and SSIH (Société Suisse pour l'Industrie Horlogère), merged to form ASUAG/SSIH in order to save the industry.

Kodak is often cited as a prime example of a company that failed to adapt to the shifting product life cycle, specifically the transition from film photography to digital photography.<sup>3</sup> Despite inventing the first digital camera, Kodak clung to its film-based business model for too long.

BlackBerry dominated the early smartphone market with its business-focussed devices, featuring full keyboards and secure email.<sup>4</sup> However, as the smartphone market entered the growth phase with a focus on broader consumer features like apps, touch screens, and multimedia capabilities, BlackBerry failed to adapt its product offerings quickly enough.

In contrast, other organisations were able to survive by merging.

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2 The Quartz Crisis and Recovery of Swiss Watches | Relation Between Timepieces and Society. The Seiko Museum. Archived from the original on March 6, 2019. Retrieved March 3, 2019, from [https://web.archive.org/web/20190306043210/https://museum.seiko.co.jp/en/knowledge/relation/relation\\_11/index.html](https://web.archive.org/web/20190306043210/https://museum.seiko.co.jp/en/knowledge/relation/relation_11/index.html)

3 Rees, Jasper (January 20, 2012). "The end of our Kodak moment". *The Telegraph*. London.

4 Timmer, John (December 2021). "The end of BlackBerry phones is finally, truly here". *Wired*. ISSN 1059-1028. Retrieved December 3, 2022.

### VIGNETTE: EXAMPLES OF EARLY SUCCESSFUL MERGERS

In 1999, Exxon and Mobil, two of the largest oil companies, merged to form ExxonMobil, creating what was then the world's largest publicly traded oil company.<sup>5</sup> This merger allowed them to combine their strengths in various global markets, achieve economies of scale, and reduce costs through synergies, helping them to better survive the fluctuations in oil prices and the intense competition in the global oil market.

In 2000, J.P. Morgan & Co. merged with Chase Manhattan Corporation, combining Morgan's investment banking prowess with Chase's strong retail banking operations.<sup>6</sup> The merger created a banking powerhouse capable of competing with the largest global banks, significantly enhancing their scale and scope in various financial services.

Survival can also be secured by acquisition rather than merger, enabling the acquiring company to either significantly enhance its core capabilities or diversify into new markets with great effectiveness.

### VIGNETTE: EXAMPLES OF SUCCESSFUL ACQUISITIONS

In 2005, Google acquired Android Inc. for an estimated USD 50 million.<sup>7</sup> This strategic acquisition allowed Google to enter the mobile operating system market, which proved to be a game-changer. Android has since become the world's most widely used

5 Myerson, Allen R. (1998). "The lion and the moose; How 2 executives pulled off the biggest merger ever". *New York Times*. Retrieved April 15, 2024, from <https://www.nytimes.com/1998/12/04/business/the-lion-and-the-moose-how-2-executives-pulled-off-the-biggest-merger-ever.html?pagewanted=all>

6 Bagli, Charles V. (February 21, 2018). "Out with the old building, in with the new for JPMorgan Chase". *The New York Times*. ISSN 0362-4331.

7 Amadeo, Ron (July 21, 2018). "Google's iron grip on Android: Controlling open source by any means necessary". *Ars Technica*. Retrieved December 31, 2022, from <https://arstechnica.com/gadgets/2018/07/googles-iron-grip-on-android-controlling-open-source-by-any-means-necessary/>

smartphone platform, providing Google with significant leverage in mobile advertising and app distribution.

In 2016, Microsoft acquired LinkedIn for USD 26.2 billion.<sup>8</sup> This acquisition has been beneficial for both companies, with LinkedIn continuing to operate as its own distinct brand but leveraging Microsoft's resources to accelerate its growth and expand its business offerings. Microsoft has integrated LinkedIn's social network data with its cloud and productivity products, enhancing value for its enterprise customers.

However, these high profile successes are not the norm. Mergers and acquisitions often fall short of delivering their expected benefits for a variety of reasons, as discussed in more detail throughout this book. The complexities involved in combining two distinct business entities are immense, and various challenges can undermine the potential synergies and advantages originally envisioned.<sup>8</sup>

And of course, such mergers or strategic alliances are not just restricted to commercial companies. Local police forces seek to merge with neighbouring forces with the intention to exploit economies of scale. Regional and local government merge to form a single integrated entity. The UK government's VAT customs and excise department merged with the UK taxation department then called 'Inland Revenue' to form what is now called 'HMRC His Majesty's Revenue and Customs' department.<sup>9</sup>

And not only does survival involve large scale organisations, as private local coffee shops are bought out by chains such as Starbucks. Individual privately owned hotels and restaurants cluster into small groups of four or five and face the same challenges but often the same fate as larger organisation acquisitions.

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8 Greene, Jay; Steele, Anne (June 13, 2016). "Microsoft to acquire LinkedIn for \$26.2 billion". *Wall Street Journal*. Retrieved June 13, 2016, from <https://www.wsj.com/articles/technology-busiest-sector-in-merger-deals-this-year-1465861867>

9 UK, *Commissioners for Revenue and Customs Act 2005*, <http://www.legislation.gov.uk/ukpga/2005/11/section/4>

By 1905, when philosopher George Santayana<sup>10</sup> wrote, ‘Those who cannot remember the past are condemned to repeat it’, humans had already been gleaning lessons from history for several millennia. Around 800 BC, in the Iliad, Homer used the principal players in the Trojan War to explore leadership strategies and styles. Nearly 1,000 years later, at the start of the second century AD, Plutarch compared the character traits of historical leaders in Lives of the Noble Greeks and Romans. And of course, we are still at it today. Organisations blindly follow leadership and strategy lessons drawn from the lives of yesterday’s inventors, tycoons, generals, politicians, and other leading lights.

Too many leaders in their organisation believe their survival is secure in spite of the fact that an organisations’ past is no guarantee of its future. One day the product life catches up with you. Even the Dodo became extinct in 1681 in spite of aeons of evolution and simply seeking to merge or acquire (or be acquired) is not a simple solution.<sup>11</sup>

In this book, we seek to revisit the limitations of existing practice to mergers and acquisitions and offer new approaches based on our own extensive research – initially practitioner based whilst recalling Kurt Lewin’s maxim that ‘there’s nothing so practical as good theory’ to which we add ‘there’s nothing like good practice to develop new theory’.

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10 Kinni, Theodore (2019). “Past performance is no guarantee of future results”. Retrieved from <https://www.strategy-business.com/blog/Past-performance-is-no-guarantee-of-future-results>

11 Baker, R. A.; Bayliss, R. A. (2002). “Alexander Gordon Melville (1819–1901): The Dodo, *Raphus cucullatus* (L., 1758) and the genesis of a book”. *Archives of Natural History*. **29**: 109–118.

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## TIMES OF CRISIS

In the last few years, especially, there has been an increase in pressure on the needs for mergers and acquisitions (M&As). Given the changed context, the combination of the COVID-19 pandemic, energy, and geopolitical crises requires organisations to test their business operations and strategy for effectiveness and sustainability. This is nothing special because in an uncertain, rapidly changing world, organisations must constantly evaluate their business models and (re)define their service offerings to stay relevant and create value for (their) customers.

Critical assessment of the strategy, the core competencies, and the product and service portfolio has become a necessary and continuous process. Given the developments in the market, do they provide a sufficient basis for a successful continuation of the business activities, or is an adjustment necessary?

This way, growth opportunities can be identified promptly, and decisions about continuing structurally underperforming activities are completed on time. The recent crises have been boosting this process and causing business activities to be realigned rapidly. On the one hand, there will be divestments and disintegration processes. On the other hand, integrations and reorganisations will follow.

It is plausible that an accelerated farewell will be taken of insufficiently profitable or no longer strategic parts of the organisation. Although there is much scepticism in the market in these unusual times, there are almost always financially strong organisations or

investment funds that now see the possibilities at home and abroad to make strategically interesting acquisitions of parties in serious trouble.

The latter is a development that cannot count on universal approval. In various countries, reference is made to the national or regional importance of 'own' strategic sectors and those foreign players should not take these over at a 'low price'. For example, in a recent report on European Union (EU) competition policy, mechanical, electrical, and plumbing enterprises (MEPs) emphasised the need to safeguard essential EU organisations and assets against hostile takeovers.

#### VIGNETTE: CONCERNS ABOUT CHINA'S M&A STRENGTH

Based on their research, Sachsenmaier and Guo<sup>1-6</sup> discuss that access to technology and know-how is one of the main reasons Chinese organisations invest in Germany. China uses acquisitions as an alternative to internal product and process innovation, learning from others instead of industrialisation based on internal innovation.

It ties in with 'Made in China 2025', the national strategic plan to develop the People's Republic of China's manufacturing sector further, starting in May 2015. This initiative encourages the production of high-quality products and services,

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- 1 <https://www.industryweek.com/the-economy/article/22024894/should-we-allow-the-chinese-to-buy-any-us-organization-they-want>
  - 2 <https://justthenews.com/world/asia/made-china-owned-china-20-deals-show-how-china-gobbling-us-assets>
  - 3 <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vfashx>
  - 4 <https://www.forbes.com/sites/kenrapoza/2020/04/18/watch-out-for-china-buying-sprees-nato-warns/>
  - 5 <https://www.foxnews.com/world/how-much-of-the-united-states-does-china-really-own>
  - 6 [https://en.wikipedia.org/wiki/Made\\_in\\_China\\_2025](https://en.wikipedia.org/wiki/Made_in_China_2025)