EDINBURGH BUSINESS SCHOOL
HERIOT-WATT UNIVERSITY

Mergers and Acquisitions

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Preface

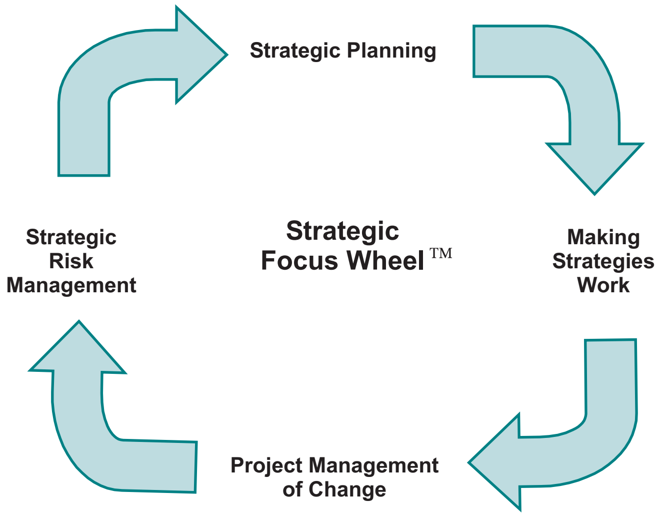
An understanding of mergers and acquisitions as a discipline is increasingly important in modern business. A glance at any business newspaper or business news web page will indicate that mergers and acquisitions are big business and are taking place all the time. Some sectors, such as finance, oil, pharmaceuticals, telecommunications, IT and chemicals, have been transformed since 1994 by the occurrence of very large-scale mergers and acquisitions. The sums of money involved in the really big mergers are truly astronomical. For example, the acquisition of the German company Mannesmann by the UK company Vodafone in 2000 was valued at $183 billion. This deal created by far the largest company listed on the London Stock Exchange, and the fourth largest company in the world. The Vodafone–Mannesman deal overshadowed other recent large-scale deals including AOL-Time – Warner ($181 billion), MCWorld.com – Sprint ($127 billion), Pfizer – Warner Lambert ($88 billion) and Exxon-Mobil ($86 billion). These are enormous sums of money by any standards.

Mergers and acquisitions also take place in relation to much smaller transactions. In an increasing number of countries mergers are now occurring between public sector organisations in areas such as universities and hospital trusts. The indications are that this high level of interest in mergers and acquisitions will continue and if anything increase. As technology continues to develop, and as deregulation and globalisation evolve, the old barriers to trade and national influence become less and less of an obstruction to international trade. In this context, mergers and acquisitions are likely to become an even more important consideration in strategic planning and strategy implementation in the future.

In an article in the *Harvard Business Review*, Joe Bower suggested that most mergers and acquisitions fail. He said that there is a great deal written about mergers and acquisitions, although these writings are largely opinions and are based on one-off cases from which general rules cannot be reliably determined.

In the Edinburgh Business School (EBS) approach, mergers and acquisitions as a discipline are closely related to the *Strategic Focus Wheel™* as developed by Professor Alex Roberts. Mergers and acquisitions represent a major source of organisational change. In relation to change, organisations that can identify the need for change, design the changes required and implement these changes more effectively and efficiently than others are more likely to survive and prosper. Those that cannot adapt to change are likely to perish. The *Strategic Focus Wheel™* was developed by Professor Alex Roberts to address these issues.

The *Strategic Focus Wheel™* covers four interrelated areas as shown below. These four areas form the basis for separate Edinburgh Business School distance learning texts and for the core of the EBS Doctor of Business Administration (DBA) in Strategic Focus programme.



The Strategic Focus Wheel™

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The wheel is used to focus the efforts and resources of organisations on delivering their intended strategic objectives, and has four core elements.

- **Strategic planning** revolves around identifying the options available to an organisation and selecting the most appropriate. If the strategic position selected is poor or inappropriate, even the best implementation capability is unlikely to compensate.
- **Making strategies work** is a process for connecting the high-level strategic plan to the day-to-day activities that are critical to its delivery.
- **Project management of change** ensures completeness and control over the physical realisation of the chosen strategy. Project management provides a comprehensive set of tools and techniques that enable managers to plan and implement change effectively and increase the likelihood of achieving the various objectives of the change process.
- **Strategic risk management** concerns the identification, monitoring and management of the risk profile of the organisation. Strategic risk management covers four primary risk areas or levels. These are *strategic risk*, *change or project risk*, *operational risk* and *unforeseeable risk*.

The complete *Strategic Focus Wheel* offers a representation of some approaches and tool sets that can assist in achieving and maintaining strategic focus. The EBS text in *Mergers and Acquisitions* is one of a series of new advanced-level integrated texts that have been developed in conjunction with the *Strategic Focus Wheel*. In implementing a major merger or acquisition the wheel functions can be used to plan the merger or acquisition and then make the transition work. The immediate and likely long-term performance of the transition can be monitored using strategic risk management tools and techniques. Where specific risks are identified and classified, project management can be used as a correctional tool for reducing the risk to a level where the residual element poses little threat to successful implementation.

The terms 'merger' and 'acquisition' are used interchangeably throughout the text. Setting the ownership issues to one side, the other characteristics, such as strategic logic, valuation, due diligence and implementation, remain similar.

The Multidisciplinary Approach

Mastery of mergers and acquisitions entails using skills from a wide range of management disciplines. It could be that many mergers and acquisitions fail because the managers leading them have an insufficient breadth of skills and/or experience. In mastering this text readers will have to call upon many disciplines encountered in the core MBA courses. In order to evaluate the strategic logic of a merger or acquisition, readers will need to think like a strategist. The basics of the Strategic Planning course are extended to encompass focus and characteristics mapping. Having evaluated the strategic logic, readers will then be challenged to put a value on the proposed merger or acquisition transaction and, therefore, will need to think like a financier, drawing on the knowledge acquired during the Finance course. Last, but by no means least, readers will be challenged to implement (make it work in practice) the proposed merger or acquisition, drawing on the knowledge acquired in the Project Management and Strategic Risk Management courses.

In *Mergers and Acquisitions*, readers are challenged to think in an integrated manner; like a strategist, financier and project manager, but all at the same time. Few functional managers, with the possible exception of a few CEOs and general managers, are called upon to apply such a wide range of disciplines simultaneously in an integrated manner. It is, however, our observation that many people who lead mergers and acquisitions in practice come from a single functional background. This may be part of the explanation for many of the failures in mergers and acquisitions, and for the recent rise of specialist merger and acquisition project management consultancies, particularly in the US.

As would be expected, there is some overlap between the Mergers and Acquisitions text and the basic MBA courses, particularly the courses in Strategic Planning and Finance. There is also some overlap with the courses in Project Management and Strategic Risk Management. Such overlaps are, however, considered in the specific context of mergers and acquisitions.

Gaining a Swift Overview

Readers have many different learning styles. Some readers prefer to study a stage at a time in depth. Others prefer to read through the text, develop an overview and then fill in the specific detail over a period of time. For readers who fall into the second category it is recommended that they first read the frequently asked questions and common misconceptions at the beginning of each module and the module summaries at the end of each module.

Note also that this text is concerned with risk management from a generic point of view. The text does not refer specifically to financial risk management as there are already two appropriate Edinburgh Business School distance learning texts: *Financial Risk Management 1* and *Financial Risk Management 2*.

Mergers and Acquisitions is an integrated text. Most textbooks on mergers and acquisitions concentrate on one aspect of the process, such as the financial aspect. This text attempts to consider the whole process, from strategic rationale to implementation. In doing so, the text addresses a combination of strategic, financial and implementation issues. The financial issues are addressed by a financial specialist and adopt a slightly different format and structure to the rest of the course. Candidates may therefore detect structural and content differences between Modules 4 (valuation), 5 (merger tactics) and 6 (due diligence) and the other modules contained within the text. These differences are intentional, as the financial aspects of mergers and acquisitions necessarily take a different viewpoint from the strategic and implementation aspects.

Candidates may detect that the financial modules (Modules 4, 5 and 6) adopt a more quantitative approach and make use of a smaller number of more detailed end-of-module multi-choice and self-assessment questions. This is because the questions used in these modules address a more narrowly focused and defined area than the strategic rationale and implementation areas. Strategists and project managers (implementers) have to be able to think in terms of a wider range of variables and drivers than financial specialists. Modules 1 through 3 and 7 to 10, therefore, address a wider range of less detailed end-of-module multi-choice and self-assessment questions.