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Cross-Border Mergers and Acquisitions

SCOTT C. WHITAKER

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ADDITIONAL PRAISE FOR *CROSS-BORDER MERGERS AND ACQUISITIONS*

"Chinese companies are making record-high investments in overseas mergers and acquisitions (M&A), but most of them lack successful practices in those endeavors. This book describes the strategy formulation, transaction planning, execution, and post-merger integration. It provides practical and excellent guidance for cross-border M&A. This is an M&A reference tool worthy of in-depth and repeated reading. In particular, this book not only elaborates the impact of cultural differences in overseas M&A deal execution and post-merger integration, but also provides practical and effective measures to cope with them, which is worthy of special attention and learning by Chinese companies."

Lijun Liu, M&A Director of State Owned Asset,
China Minmetals Corporation

"The compilations of 10 contributors provide the holistic view of the art and science of integration with a continual focus on strategy alignment and drive for accretive value—remarkably overlooked and misunderstood by many IMO practitioners."

Jonathan E. Bunce, Senior Director, M&A Integration, Intel

"The reader will find many decades of hands-on cross-cultural leadership synthetized in practical concepts. The authors splendidly combine a holistic depiction with great depth on the critical topics. A must-read if you play any relevant role in a cross-border M&A or PMI."

Helio A. Castano, Vice President, Administration and
Integration, Bar-S Foods

"Most recent books about M&A focus on the need to ensure that the integration is based on the objectives and value drivers of the acquisition. In this book Whitaker takes this approach a step further by applying a cross-border lens. The result is both a good read and a great reference book for the M&A practitioner."

Pat Belotti, Director of Corporate Development Integration,
DocuSign

"A rich database for everyone involved in cross-border M&As; in many cases a 'must' in today's world with globally distributed value chains. The combination of both breadth and depth in one context will attract both professional managers and readers in search of knowledge in this area for the first time."

Arne Karlsson, Departing Chairman and Former CEO, Ratos

"Given my role at an M&A software company, I have read a library of M&A books. *Cross-Border Mergers and Acquisitions* easily rises to the must-read category for M&A practitioners at all levels. The material covers all topics comprehensively, makes complex situations easily understandable, and provides actionable advice to planning and executing global deals."

Ari J. Salonen, PhD, President, Midaxo

"Cross-border mergers and acquisitions are among the very few strategic moves that can change the competitive position of a company almost overnight. This book provides a unique and comprehensive perspective on how cross-border M&As must be prepared, executed, and managed over the long run. It is a must-read for executives, consultants, and students interested in the topic."

Bernard Garrette, Professor of Strategy and MBA Associate Dean, HEC Paris

"*Cross-Border Mergers and Acquisitions* provides the reader with practical, experience-based execution guidance in a complex area that is fraught with many value-destroying pitfalls. It's critical for M&A practitioners to understand the complexity and the cultural differences that are foundational to cross-border work. Without this understanding, value and synergy realization will be elusive."

Janet Phillips, Senior Director, M&A Integration, Symantec, Inc.

"China's cross-border M&A thrives in recent years as the result of great success in economic growth. Besides sustained enthusiasm of inbound investments, capital-rich Chinese investors are increasingly interested in overseas valuable assets, not only in order to acquire natural resources or market entry but also to fulfill the capability gaps in technologies, management, and so on. I find that this book provides comprehensive and practical knowledge in cross-border M&A and believe that it could be helpful for those emerging Chinese players and their global counterparts."

Yi Bao, CEO, Morgan Stanley Huaxin Securities, and Managing Director, Morgan Stanley

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Edited by

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To our families, clients, and colleagues . . . and to Sheila
for keeping us all on task

Contents

Preface

After *Mergers and Acquisitions Integration Handbook: Helping Companies Realize the Full Value of Acquisitions* (John Wiley & Sons, 2012) published, I realized that executives were looking for practical guides to handling the complex task of integration. They wanted books that were rooted in the realities of execution, not based on theory or outdated concepts.

Cross-Border Mergers and Acquisitions attempts to apply the same approach for handling global integrations. The book is a compilation from 10 mergers and acquisitions (M&A) professionals who together have experience handling hundreds of cross-border transactions across dozens of countries.

The authors bring perspectives on M&A from nine countries that represent the bulk of global M&A activity: the United States, the United Kingdom, France, Belgium, Germany, Sweden, Israel, Japan, and China.

Many mission-critical topics, including M&A strategy, integration, due diligence, and culture are covered in multiple chapters to allow the authors to share their respective experiences, and enable the reader to gain several different perspectives on many key subjects.

Note that several of the authors are writing in English as a second or even third language, which is quite impressive for such an intricate subject. While I have made efforts to mildly harmonize style differences across the book, I have tried to allow some of the country-specific nuances to show through to showcase the cultural point of view of the authors.

Cross-Border Mergers and Acquisitions is organized into four parts, each covering a wide range of M&A topics. Here's an at-a-glance summary of how the book is organized and what you will find in each section and chapter.

PART ONE: CROSS-BORDER STRATEGY AND DEAL PLANNING

This part provides some insights into the overall dynamics of the global M&A environment, along with some perspectives on region- and country-specific trends and nuances.

- **Chapter 1, "Cross-Border Deal Evolution and Rationale,"** presents an overview of the evolution and rationale of cross-border deals, along with some general information on the overall M&A market—sizing of the current market, international development, existence of cycles, determinants of the M&A waves as an introduction to cross-border M&A evolution, and high-level specificities.
- **Chapter 2, "Cross-Border M&A Strategy and Deal Planning Essentials,"** explores decision-making and strategic process approaches for managing cross-border integration activity.
- **Chapter 3, "Legal, Financial, Social, and Political Interdependencies with Cross-Border Integration,"** introduces the key legal, financial, social, and political influences on, and implications of, cross-border mergers, acquisitions, and divestitures. It puts cross-border M&A programs in context within and between the jurisdictions and societies where the companies operate.
- **Chapter 4, "Trends and Leading Practices in Global M&A,"** introduces important concepts related to strategic reasoning for doing the deal, along with the key phases and steps in the M&A life cycle. This chapter includes a step-by-step process that enables you to find and review potential targets for their fit, and introduces important issues related to cross-border due diligence, along with options and strategies for mitigating the execution risk in cross-border deals.
- **Chapter 5, "Cross-Border M&A: Region- and Country-Specific Trends and Deal Planning Tips,"** delves into the countries and industries that dominate pre-deal M&A and what considerations are important when exploring cross-border opportunities.

PART TWO: CROSS-BORDER CULTURE AND LEADERSHIP ALIGNMENT

This part includes several chapters that explore how leadership and culture influence cross-border M&A.

- **Chapter 6, "Leading during Cross-Border M&A,"** attempts to outline specific activities and practices leaders can take during an M&A event to help ensure transaction success and lay the foundation to make integration a core competency of their organizations.
- **Chapter 7, "The Role of Culture in Cross-Border M&A,"** explains the importance of culture in a merger or integration environment,

and shows how to create awareness of cultural elements in both the deal teams and integration teams. The importance of company values in turning culture into a success driver for your deal is also explored.
- **Chapter 8, "Managing National Reactions and Sovereignty Issues,"** explores the "local" side of cross-border M&A and how region- and country-specific nuances such as regulatory constraints, sensitivities of local populations, unions, and many other areas can impact transactions.

PART THREE: CROSS-BORDER INTEGRATION, PLANNING, AND EXECUTION

This part includes an abundance of detail around the more tactical elements of cross-border integration, along with how country-specific nuances can impact planning and execution details.

- **Chapter 9, "Managing Pre-PMI Due Diligence,"** presents a methodical approach for cross-border due diligence based on lessons learned from hands-on project engagements, including a practical review of the due diligence process, and ingredients and tools to be applied in order to improve the quality of due diligence deliverables.
- **Chapter 10, "Ramping Up an Integration Management Office and Day One in Cross-Border Deals,"** provides a comprehensive understanding of the integration management office and describes activity to set up an IMO and to execute a successful Day One.
- **Chapter 11, "Integration Decision Making and Process Strategy in Cross-Border Deals,"** reviews the important factors that drive cross-border M&A success, including leadership styles and related decision-making and process development and change approaches.
- **Chapter 12, "Post-Merger Integration Process, Methodologies, and Tools,"** explores a multitude of integration planning and execution essentials across all phases of the M&A life cycle.
- **Chapter 13, "Managing Post-Merger Integration Globally,"** outlines various approaches for managing a PMI process in a cross-border scenario. This chapter also explores PMI governance concepts, managerial structure, roles and responsibilities, meeting management routines, and communications.
- **Chapter 14, "Country-Specific Trends and Tips for Integration Planning,"** outlines proven approaches for factoring cultures and work styles in cross-border integrations. The chapter also includes cultural

tips and hints for the top three M&A countries along with key integration topics by region.

- **Chapter 15, "M&A and Post-Merger Integration Considerations for China and Japan,"** reviews the current trends and issues involving both inbound investment into China and Japan by foreign companies and outbound investment from China and Japan. It describes the motivations behind the inbound and outbound investments, and points out the critical issues that have significant impact on the success or failure of M&A projects in these countries.
- **Chapter 16, "Cross-Border Synergy Program Management,"** explores what to look for in cross-border deal synergies, and how to validate them during pre-deal planning. The chapter also explores how to structure a synergy program and track synergies until realized.

PART FOUR: UNIQUE CROSS-BORDER M&A TRANSACTION SCENARIOS

This brief part provides insight into some unique transaction scenarios and situations.

- **Chapter 17, "Managing Carve-Outs and Transition Service Agreements,"** describes what divestitures are, how they differ from integrations, and what the end state of a carve-out can look like. It goes on to describe the key contract associated with carve-outs, the transition service agreement, how it is structured, managed, and exited successfully.
- **Chapter 18, "Joint Ventures,"** explores some additional considerations on how to plan, structure, and execute joint venture agreements.

The topics chosen are intended to cover the most common planning- and execution-related elements of M&A transactions. I have also attempted to include a range of perspectives on region- and country-specific considerations to help readers appreciate the complexities associated with cross-border transactions.

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Scott has been involved in over two dozen mergers and acquisitions totaling nearly $100 billion in value. His industry experience includes health care, financial services, telecommunications, gaming, hospitality, chemicals, oil and gas, industrial manufacturing, retail, and consumer durables. Scott has worked in Canada, China, Europe, and Africa on a variety of assignments, and specializes in establishing integration management offices (IMOs) and helping companies develop integration playbooks. He holds a BA from the University of North Carolina at Chapel Hill and is the author of *Mergers and Acquisitions Integration Handbook: Helping Companies Realize the Full Value of Acquisitions*.

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PART One

Cross-Border Strategy and Deal Planning

CHAPTER 1

Cross-Border Deal Evolution and Rationale

Gilles Ourvoie

CHAPTER LEARNING OBJECTIVES—IN THIS CHAPTER, YOU WILL LEARN:

- How cross-border deals have evolved over time and what key lessons we can draw from such analysis.
- At the firm level, what the main strategic motives are for cross-border deals and to what extent microeconomic factors influence the success of a deal.
- More generally, what the main factors influencing cross-border deals are, from global to micro levels, and how they can be correlated with cross-border deal success.

CHAPTER SUMMARY

Mergers and acquisitions (M&A) transactions in general, and decisions to engage in a deal, are connected to a wide number of internal and external factors that have been thoroughly analyzed over the past century. Even if the specific analysis of cross-border deals is more recent and therefore limited, any decision maker should have a view of the main economic forces at stake and how they might influence the M&A and PMI outcome. Building on this knowledge brings as well a better view of the potential determinants of any cross-border deal, and how these determinants may be part of the due diligence process. This chapter aims to provide this general background information, with a view of potentially improving the quality of the decision-making process and the end result of the transaction.

THE EVOLUTION OF M&A AND CROSS-BORDER DEALS

To understand the cross-border mergers and acquisitions (M&A) phenomenon, one has to look back to get some perspectives. The M&A market is historically a recent phenomenon, which has been linked to a certain form of economic development based in particular on fungible shares easily negotiable on markets.

The M&A market's evolution shows a globalization of this tool as a leading business transformation mechanism. However, this mechanism of ownership change and corporate value transformation has ups and downs. And there are still some major differences between countries in terms of how cross-border M&As are accepted and used.

Moreover, the analysis of these different M&A waves over a long period of time has yielded some details about the rationale for such transactions. A wide number of parameters have been connected to cross-border deals. We try here to provide an overview of the types of factors at play (both internally in the firm and externally), with the view that most of these factors play at different geographical levels (local, national, and global).

It is also important to note that cross-border deals are far more complex to achieve than purely domestic ones. The necessity to analyze business conditions abroad and gaps with domestic business conditions is a challenging intellectual process one should not underestimate.

The M&A market has been expanding globally to new territories and new sectors for more than a century. The number of countries in the world that are aware of such transactions is increasing, and the number of sectors concerned by cross-border deals is increasing as well.

However, this general expansion and commoditization of international M&A is far from linear; the market has had upward and downward movements, much like the financial stock market.

The M&A and cross-border market has its ups and downs, and executives must understand where they stand in terms of market situation to surf on the right waves. The timing aspect of a deal is an important element of success in order to pay at the right level of multiple and benefit from positive economic conditions to quickly finance the investment.

M&A: A Resilient Market[1]

The global M&A market is quite volatile. The year 2014 was a renaissance for the M&A market, and this growth has continued in 2015, surpassing the 10% expected growth.[2] This upswing comes after a prolonged financial and economic global crisis that began in the United States in 2007 with the mortgage crisis. This financial accident caused increased budget deficits all over the world (United States, United Kingdom, Spain, Portugal, Italy, France, and so on) when nations attempted to cope with the economic downturn and increased unemployment. This, in turn, generated more trading chaos, this time in sovereign debt and public and private bond rates, jeopardizing, in particular, the most vulnerable countries (Greece, Spain, and Italy). To cope with this phenomenon, public austerity measures were taken to limit budget deficits (Europe). This eventually hit the global economy and caused five to seven years of gross domestic product (GDP) negative to low growth. And all of these problems have not been entirely solved yet.

In parallel, new conflicts have grown from local ones (Libya, Egypt, Sub-Saharan Africa, Syria, Yemen, Ukraine) into new global risks (jihadist terrorism, cyber-war, migrating populations). The BRICS (Brazil, Russia, India, China, South Africa) nations seem headed into an era of lower growth, and their role as the economic engine of the world appears weaker—with lower oil and gas prices (Russia) and growing local reactions against corrupt elites and social inequalities (China, Brazil): How will they fund their investments in infrastructure, education, and technologies? This high-level picture shows to what extent the connection of M&A and the general economic and geopolitical context is a complex one, based on a wide range of factors and not strictly connected to financial market optimism or GDP accelerated growth perspectives.

In an upward cycle, the global value of the M&A market increases far quicker than the underlying GDP. In 2014, the M&A market reached its highest level since 2007 with $3.3t of announced deals in value. This climbed to $4.7t in 2015, after two years at about a 40% annual growth rate. Actually completed deals are a bit below in terms of growth: +15% in 2014 and +25% in 2015 to reach $2.5t. These growth rates are to be compared with global GDP growth of between 1% and 7% in the most important economies. There is no quicker way for a firm to reach critical size and competitiveness. Altice reflects this hypergrowth acquisitive strategy in the telecoms and cable sector, with four acquisitions achieved in 18 months: Suddenlink ($9b of deal value) and Cablevision ($15b) in the United States and Portugal Telecom ($7b) and SFR ($13b) in Europe—among other deals achieved by the group.

This M&A growth is based on an important but almost stable number of deals. There were 42,220 transactions announced worldwide in 2014, and 42,313 in 2015. This represents about 3,500 deals worldwide on a monthly basis compared to a low of 600–800 in the worst year (2009), or about 115 new deals every single day. This important number of deals has a direct impact on the entire M&A business: in a dynamic market, the number of commercial opportunities is high as well for investors, bankers, lawyers, accountants, and consultants. As a consequence, the number of players in the industry is high, as is the competition among them.

The average value of deals has grown more in 2015 than the number of deals. In each active M&A phase, it has been noted that the value of M&A deals (based on the firms' market capitalization) increases significantly.[3] In 2014, 95 deals closed with over $5b of value. In 2015, 71 announced deals have been over $10bn in value, the highest level ever. M&A players (banks, corporations, private equity firms) have been able to more easily fund such complex deals. Deal value is an important factor in terms of both profits for the M&A industry and technical innovation. Mega-mergers tend to be projects where the level of high complexity and the existence of important resources make it possible to make progress on methods. Service providers tend to learn and invest in mega-projects, and then leverage this experience on smaller projects. Logically, the more a firm or country experiments with mega-mergers, the more its teams or nationals innovate and benefit from a sort of comparative advantage.[4]

A Geographically Spreading Market

The international expansion of the M&A market is a major factor. All regions grew at a fast pace in 2014 (36%–56% year on year), except for the Middle East and Africa. In 2015, Europe was the least active region with only an 8% growth rate, while Japan and Asia-Pacific were the most active ones (+62%). This illustrates the pursuit of the globalization trend and the growing use of similar business strategies worldwide.

The Americas remain by far the most active M&A market worldwide. They accounted for 53% of the total value in 2015 ($2.5t of deals announced, $2.3t of which were in the United States). In the United States, large transformational deals in the health care, high-tech, and energy sectors have fueled the market. Buyers have been essentially strategic ones, benefiting from strong cash positions, high stock market levels, and low interest rates due to the "quantitative easing" monetary policy. In 2014, regulatory and tax aspects have also justified a number of "cash inversion" deals from European firms into the United States. About 50% of the deals have been equity based. The increasing role of activists has been a key element of change in 2014, although less so in 2015.

Europe at large is now the third-largest M&A market. It accounted, however, for only 36% of the value of the deals in the Americas in 2015, versus 50% in 2014. In terms of global market share, in 2015 Europe represented less than 20% of the global market ($907b). After having been the most active region in 2014 (+55% annual growth rate), the area has experienced a quasi-stagnation of 8% growth due mostly to the French downturn (–45%).

In Europe, investments from Chinese and other Asian countries have been pushing the market up, as have intra-European consolidation deals. The main sectors involved were consumer staples, energy, industrials, and pharma. In 2014, it was pharma, industrials, luxury goods, and financial services. Low economic growth rates, uncertainties about the European evolution (potential withdrawal of the United Kingdom, failing euro due to the implementation of a QE policy, lasting questions about a potential "Grexit," and conflict in Ukraine), and growing geopolitical difficulties have limited the 2014 rebound.

Asia-Pacific including Japan is now more active than Europe. It represented 26% of the market in 2015 versus 22% in 2014 ($1,242b). The main sectors are industrials, high tech, and financials as opposed to consumer, retail, and leisure in 2014. Asian outbound activity is still focused on the United States and Europe, but is becoming more and more global.

Middle East and Africa are still marginal markets. These regions accounted only for less than 2% of the 2015 market value ($80b versus $65b in 2014). Despite getting more and more private equity and financial attention, M&A transactions have been decreasing there due to political uncertainty, ongoing stumbling oil prices, and slow structural reforms.

Strong Lasting National Differences

The general M&A growth has virtuous consequences on future deals. As an M&A national market grows, it allows better access to competencies, a better circulation of information of the general public, better regulatory frameworks, and growing popular acceptance of M&A transactions as a managerial tool. Drilling into details, this also means better investor protection, better accounting standards, banking laws, financial and economic informational flows, corporate governance regulations, and compliance procedures, and increased market scrutiny by the financial press or activists. All these elements secure investment forecasts and multiply potential inward deals, even if valuation and transaction costs are a bit higher.

But in spite of the geographical expansion of M&A, there are still significant differences between countries. Deal-makers must pay attention to these differences, and not assume that what they see in their home country will be replicated in other contexts. This "principle of caution" will reduce considerably the causes of failure in a cross-border deal.

First and foremost, major differences exist between advanced and emerging countries. Country-specific differences are critical in explaining why funds go preferably to more advanced economies (the Lucas paradox[5]). These differences may cover a wide array of intertwined aspects: laws, national economic performance, as well as institutional quality.[6] Getting into more details, factors such as political instability, statewide corruption, weak or unimplemented laws, and inefficient administrations tend to limit transactions. Inbound investments are as a consequence higher in more advanced economies, where paradoxically the costs related to regulation, labor, or other institutional elements are higher.

But there are also significant gaps between advanced economies. Advanced economies, with comparable levels of institutional quality and high standards of administrative work, do vary a lot as to their M&A markets. This has to do with other more subtle differences, such as how banks relate to companies, how access to privileged information is channeled through, how tax, human resources (HR), or other rules monitor accepted business behaviors and corporate decisions, how the institutions and jurisprudence support or limit corporate growth strategies, how education and society design national cultural patterns, and so on. As a result of this bundling of multiple factors, whether they are solid facts or just perceptions, M&As do not play the same role in advanced economies.

Table 1.1 provides a simplified view of such national differences in terms of M&A activity. Based on 2014 figures, we can read this information in two different ways.

- The *M&A value/GDP* ratio shows to what extent the national economy is exposed to M&A transactions, and hence to what extent M&A is significant in terms of boosting economic change and business reorganizations.
- The reverse, the ratio *GDP/M&A value* ("Avg. control life span"), provides a measure of the time spent in a standard national firm between major control changes. A low ratio means a quick pace of change with a broad set of impacts on governance rules, job reallocations, geographical delocalization, investment priorities, and close-down of a number of sites. The more this ratio goes down, the more people and firms know about M&A consequences and tend to adjust their behaviors accordingly. A quick change in this ratio can also generate local resistance and difficulties.

We can distinguish four major types of national M&A markets. Based on these two ratios, we can distinguish countries according to their level of national M&A activity:

Type A—Balanced Markets. The main cluster is made of quite open economies (United Kingdom, France, Canada, Australia, South Korea). Deal values account for 5%–6% of the national GDP. Firms based locally have on average a capital control stability ratio ("control life span") of 15–20 years.

Type B—Outbound Markets. A very different cluster is made up of Germany and Japan. Deals here represent only about 1%–2% of the GDP. The ownership life-cycle ratio is far longer at 50–100 years on average. This slow motion in capital mobility is due to the structure of the firms, their capacity to finance their growth domestically and abroad, and their solid and long-term links with their ecosystems. This is close to what has been called the "Rhenish capitalistic model," as opposed to the Anglo-Saxon one. It does not mean German or Japanese firms are not active on the M&A market—they do have more outbound deals.

Type C—Very Active Markets. The United States shows a very high level of M&A volume, with an 8.8% rate in 2014. The capital control life span is far shorter than in other countries despite the global size of the economy, at about 11 years. This data, however, has to be partly discounted due to phenomena like "cash inversion" deals, which do not really represent major changes in the strategy of the firms.

Type D—Transition Markets. China is an interesting illustration of transition markets, as it is more active than Germany or Japan. China may well be using M&A deals and changes of control to foster corporate transformation, increase productivity and production, and create national champions before getting into the international M&A market.

TABLE 1.1 M&A National Gaps

Country	Number of Deals (target)	Value of Deals ($ b)	Average Value of Deals ($ m)	GDP ($ b)	M&A Volume/ GDP	Average Control Life Span
United States	9,802	1,531	156	17,419	8.79%	11.4
China	4,520	390	86	10,380	3.76%	26.6
United Kingdom	2,423	177	73	2,945	6.01%	16.6
France	2,040	165	81	2,847	5.80%	17.3
Canada	1,670	111	66	1,789	6.20%	16.1
Australia	1,229	81	66	1,444	5.61%	17.8
Germany	1,516	73	48	3,860	1.89%	52.9
South Korea	1,095	65	59	1,417	4.59%	21.8
Japan	2,115	65	31	4,616	1.41%	71.0

Sources: Thomson Reuters, International Monetary Fund.

Long-Term Evolution: The Concept of M&A Waves

One major aspect of the M&A market is that it is a cyclical one. Historical research—mostly focusing on the U.S. market first—has shown the existence of cycles in M&A activity almost since the mid-nineteenth century. The existence of such a synchronicity of M&A deals has been confirmed by more recent research covering several countries.[7] This extensive research brings powerful insights about the determinants and the strategic motives of cross-border deals. Table 1.2 provides a synthesis of these waves.

From a business standpoint, what does this wave concept entail? We may draw here a number of ideas aimed at M&A and PMI professionals:

- Timing has a direct consequence on negotiation possibilities and pricing. In our own survey on cross-border integration,[8] the company share price/valuation was considered by a sample of 115 M&A professionals as both the most important deal driver and the most successfully delivered, above sales growth, cost reduction, customer retention, and several other categories in both aspects.
- Good timing is not always short term. M&A markets are not stable over time. Volumes and values may increase and decrease significantly due to a number of factors. Too often, deals are driven by chance or individual contacts between C-level executives rather than by economic or strategic forecasts. The impact of this is all the more important as complex deals may be suffering major delays—for example, it took three years between 2011 and 2014 for RHJ International to obtain agreement from the Federal Financial Supervisory Authority (BaFin; Germany) and close the acquisition of BHF-Bank from Deutsche Bank.[9] Firms should ensure a long-term tracking of the M&A market situation and potential impacts on their growth strategy.
- **The management of M&A resources should be less short-term oriented to optimize countercyclical situations.** In a cyclical market, the general availability of M&A resources at large is very variable. In low M&A markets, firms tend to reduce their internal skills and this may hinder their decisions. Banks may also limit their staff and tighten their lending conditions. Benefiting more easily from an increased mobility of skills and assets is possible in growing M&A markets. When a group has sufficient resources and triggers long-term business portfolio growth, it should invest in its M&A resources as in a normal recurring process (such as purchasing or research and development [R&D]). It is too often not the case, with several negative side effects (lack of anticipation

of issues, increased risks, suboptimization of the due diligence process, and poor post-merger integration planning and delivery).

- **Firms must have a competitive intelligence process in place to alert on any potential major market disruption.** We have seen that the M&A waves are influenced by many factors, not just financial ones. Regulation, technology, geopolitics, and many other elements may change a competitive situation and boost opportunities or freeze initiatives. This must be discussed internally and regularly and viewed with a three-to-five-year perspective so that there is sufficient time ahead to plan and implement an M&A deal.
- **Stakeholder management techniques should be applied in the M&A field to get a consistent view of M&A market trends and changes.** We have seen that banks and M&A advisors are key in the pace and intensity of the wave. It is thus critical to manage the interfaces with them, so that the insights they provide can be optimized. For instance, making sure there is a systematic feedback of the formal or informal contacts with bankers or lawyers on the market situation to the M&A and corporate development team is useful.

The Determinants of M&A Waves

Determinants versus strategic motives. It is useful to make a point on the difference between two types of elements supporting a deal. On the one hand, a firm may pursue specific strategic goals (i.e., economies of scale, access to new markets or skills). These goals will depend on its competitive position, its resources, and other factors that depend very much on the firm. On the other hand, at a statistical level, M&A deals appear to be quite well synchronized around cycles. The problem therefore is to understand why firms, pursuing very different strategic goals with different timing, may have an interest and an advantage in executing their deals according to a general cycle sequence, building on determinants that are located more at the country level or international level than at the firm level.

The concept of the M&A wave has been very productive in terms of identifying the determinants of these cycles. The historical analysis of these M&A waves has highlighted a wide range of M&A market drivers that evolve over time.[10] Figure 1.1 provides a synthetic view of the potential different types of drivers.

TABLE 1.2 U.S. M&A Waves

	1897–1904	1916–1929	1965–1969	1981–1989	1993–2000
Context	▪ Post-1883 depression ▪ Rail transport development	▪ Post-WWI growth period ▪ Car development, radio (advertisment) ▪ Easy access to funding—increasing role of investment banking	▪ Booming economy–weak role of investment bankers ▪ Development of the MBA ▪ Development of stock financing due to increasing PEs	▪ Deregulation trend: airlines, drugs, and medical equipment ▪ Financial innovation: new financing solutions (junk bonds) ▪ Role of investment bankers/lawyers in aggressive deals—increasing fees (Drexel Burnham Lambert) ▪ SEC position in favor of free market competition	▪ Extension of deregulation: banking, insurance, telecoms, high tech ▪ Internet ▪ Increased equity funding ▪ Increasing cross-border deals with the U.S.
End date	▪ 1904 depression	▪ 1929 financial crisis (Black Tuesday)	▪ Vietnam War and 1973 oil crisis	▪ 1990–1991 recession	▪ 2001 Internet speculative bubble crash and the high corporate debt level
Number of transactions	▪ 3,000	▪ 4,600	▪ 6,000	▪ 23,000	▪ 50,000
Impact	▪ Increased concentration ▪ Stricter anti-trust: Clayton Act (1914)	▪ Celler-Kefauver Act (1950)	▪ Tax Reform Act in 1969 against "paper gains" due to accounting mechanisms	▪ Development of anti-takeover techniques (golden parachutes, poison pills)	▪ First global M&A wave ▪ Development of oligopolistic situations ▪ Development of valuation techniques/due diligence

	1897–1904	1916–1929	1965–1969	1981–1989	1993–2000
Goals	■ Economies of scale in production and distribution	■ Merging for oligopoly ■ Product extension, market extension	■ Growth and profitability ■ Functional optimization	■ Shareholder value	■ Globalization
Sectors impacted	■ Mining, manufacturing, banking	■ Metals, oil products, food products, chemicals, transport equipment		■ Oil and gas, drugs and medical equipment	■ Banking, telecoms
Type of deals	■ 78% horizontal integration ■ Large number of firms involved (75% over 5 firms) ■ Some hostile bids—first takeover battle in l868 (Erie Railroad by Vanderbilt)		■ 80% conglomerate ■ Small deals	■ Mega-deals ■ Hostile mergers—"corporate raiders" ■ High debt leverage (LBOs/MBOs)	■ Large deals but no significant impact on concentration ■ More strategic deals—fewer sell-offs
Examples	■ US Steel/Carnegie Steel, Dupont, Standard Oil, General Electric, Eastman Kodak, American Tobacco	■ Conglomerates: Allied Chemical (GE, Solvay, Chemical) ■ IBM, General Motors, Union Carbide	■ ITT, Revlon	■ KKR–RJR Nabisco (USD25bn)	■ Daimler-Chrysler

Data from Patrick A. Gaughan, *Mergers, Acquisitions and Corporate Restructurings*, 2nd ed. (New York: John Wiley & Sons, 1999), 21–59.

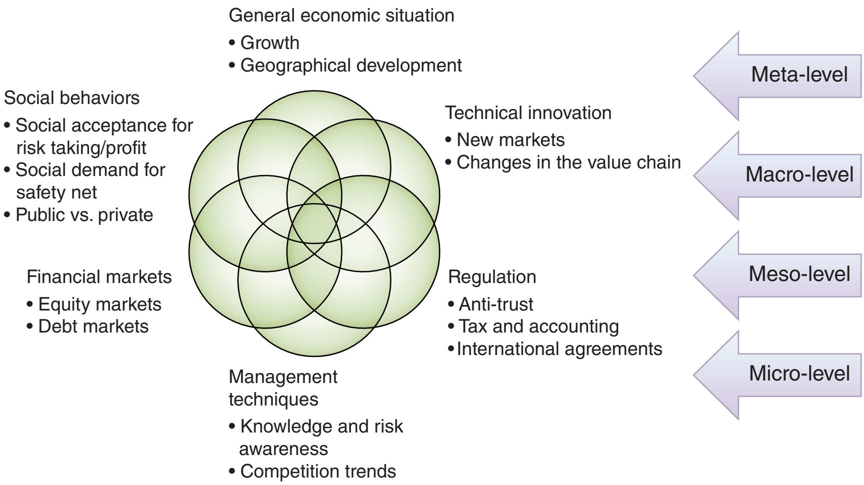

FIGURE 1.1 M&A Drivers

Each of these driving factors may have different levels of influence. We can distinguish between four major levels of forces interacting with M&A and PMI developments:

1. At the global level ("meta-level"), global forces are at stake, such as the launching of a QE program in several countries helping banks to develop credit lending, or the international development of public austerity measures to cut budget deficits.
2. At the national level ("macro-level"), national changes have an influence (e.g., a new government elected, with a new economic program, or a new anti-trust regulation). Research has shown that cross-border deals increase globally about one year before national elections, to cope with potential domestic law or regulatory changes.[11]
3. At the industry level ("meso-level"), industry-related factors may also favor or jeopardize M&A deals (e.g., a drastic change in the pricing of specific raw materials, or the introduction of a new technical application).
4. At the firm level ("micro-level"), there are also corporate-related forces that resonate with the global trends above (e.g., a new strategy following the arrival of a new chief executive officer [CEO]).

Each of these M&A driving factors may be viewed as a decisive competitive advantage at the firm level.[12] The situation of the bidder vis-à-vis each driving force has wide-ranging consequences in terms of securing an M&A deal. For instance, a firm benefiting from a good credit rating score and a