‘Globally, the vast majority of M&A deals add little value to shareholders. In fact, most manage to subtract it. Why then is there a fascination for it, and how does one avoid the obvious risks in mergers?’

Managing the risks in Merger & Acquisitions

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Warts and all, there's no getting away from the phenomenon of mergers and acquisitions (M&A). In a world of global competition, regulatory changes, fast-changing technology, and the need for faster growth and consolidation of excess capacity, M&A is a strategic option for many companies. So much so that it is noticeable not only in developed markets such as the US, Europe and Japan, but also in emerging ones like India.

In 1998, worldwide mergers and acquisitions were valued at $2.4 trillion. Among the high-profile deals of that year were Travelers/Citicorp, BankAmerica/Nationsbank, BancOne/First Chicago and DaimlerChrysler. Between 1998 to 2000, M&A deals totted up to nearly $4 trillion more than the preceding 30 years combined - and it included the biggest-ever merger, that of America Online with Time Warner (widely considered a failure).

‘BCG consultant Mark Sirower found that two-thirds of the 168 deals between 1979 and 1990 destroyed shareholder value. And many companies acquired were sold later’.

In India, too, M&As have picked up in recent times. In calendar year 2002, 1,324 M&As valued atRs 33,731 crore were announced (including the merger of ICICI with its bank), up from 1,357 deals valued at Rs 26,838 crore in 2001. The privatisation initiatives of the government accounted for one-fourth of the value of M&As in 2002. Chemicals, communication and financial services were the main contributors to M&A activity in both 2001 and 2002.

M&A risks

Which brings us to the question: if mergers are unavoidable, what can managements do to make sure that they emerge unscathed from the experience? The first thing is obviously to understand the risks. A large merger or acquisition is a strategic move that can make or break a company. A merger involves unique challenges such as the valuation of the company being acquired and integration of pre-merger entities. Valuation is a subjective matter, involving several assumptions. Integration of pre-merger entities is a demanding task that has to be managed skillfully.

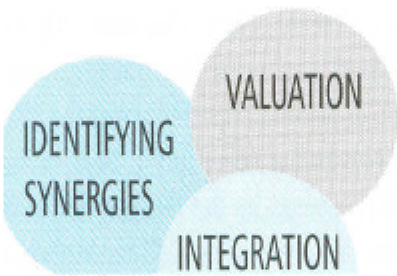
BCG consultant Mark Sirower, an internationally acclaimed expert in the field of mergers and acquisitions, found that two-thirds of the 168 deals he analysed between 1979 and 1990 destroyed value for shareholders. When he looked at the shares of 100 large companies that made major acquisitions between 1994 and 1997, Sirower found that the acquirer's stock, on an average, trailed the S&P 500 by 8.6 per cent one year after the deal was announced. In all, 60 of these stocks underperformed in relation to the market, while 32 posted negative returns. Many companies acquired were sold off later, often at a loss.

Sirower was also the brain behind a more recent study conducted by *Business Week.* The study shows that fully 17 out of the 21 "winners" who announced deals in the spring of 1998 were disasters for shareholders. If CEOs had stayed put and simply matched the stockmarket performance of their industry peers, shareholders would have been far better off. For example, in the year after the Green Tree bid, Conseco shares lost 47 per cent of their value. Shares of insurance companies in the Standard & Poor's 500 stock index rose eight per cent during the same time. So Conseco lagged behind its peers by 55 percentage points. Daimler shareholders did not fare much better: Their total returns underperformed S&P's index of auto stocks by 30 per cent. Travelers' shareholders were among the few who were in the money after a year. But they received returns that were only a marginal two per cent better than other insurers.

Similar patterns appeared across the 302 major mergers for the period July 1,1995, to August 31, 2001, covered by the *Business Week* study. The worst deal involved Web .MD and Medical Manager in a $3.2 billion stock deal completed in February 2000. Struck during the peak of the internet bubble, the huge 48 per cent premium paid quickly evaporated. A year later, the merged entity badly trailed behind its peers.

A report published by the Boston Consulting Group in July 2003 indicated that out of the 277 big M&A deals in America between 1985 and 2000, 64 per cent destroyed value for the acquirers' shareholders at the time of announcement and 56 per cent per cent continued to do *so* two years after the deal.

Strategic issues in mergers and acquisitions



Need for caution

Quite clearly, major acquisitions have to be handled carefully because they leave little scope for trial and error and are difficult to reverse. The risks involved are not merely financial. A failed merger can disrupt work processes, diminish customer confidence, damage the company's reputation, cause employees to leave and result in poor employee motivation levels.

A comprehensive assessment of the various risks involved must precede an M&A deal. The circumstances under which the acquisition may fail, including worst case scenarios, should be carefully considered. The ability of a merger to create value for shareholders must be examined carefully. As Sirower puts it neatly: "When you make a bid for the equity of another company, you are issuing cash or claims to the shareholders of that company. If you issue claims or cash in an amount greater than the economic value of the assets you purchase, you have merely transferred value from the shareholders of your firm to the shareholders of the target - right from the beginning."

Acquirers often make two major blunders. One is the tendency to lay *too* much stress on the strategic, unquantifiable benefits of the deal. This results in overvaluation of the acquired company leading to what is called the winner's curse. The second is the tendency to underestimate the challenges involved in integration. As a result, the actually realised synergies turn out to be short of projected ones.

Many companies confidently project substantial cost savings before the merger. But they underestimate the practical difficulties involved in realising them. For example, a job may be eliminated, but the person currently on that job may simply be shifted to another department. As a result, the headcount remains intact and there is no cost reduction. This is especially *so* in a country like India, where retrenchment is not very easy.

Many a merger is finalised hoping that efficiency can be improved by combining the best practices and core competencies of the acquiring and acquired companies. Cultural factors may, however, prevent such

knowledge sharing. The DaimlerChrysler merger is a good example. Also, it may take much longer to generate cost savings than anticipated. The longer it takes to cut costs, the lesser the value of synergies generated.
If generating savings is not easy, revenue growth - the reason given to justify many mergers - is even more difficult. In fact, growth may be adversely affected after a merger if customer or competitor reactions are hostile. When Lockheed Martin acquired Loral, it lost business from important customers such as McDonnell Douglas, who were Lockheed's competitors. *So,* companies must also look at the acquisition in terms of the impact it makes on competitors and the possibility of their retaliation. *Some* M&A experts consider revenue enhancement to be a soft synergy and discount it heavily while calculating synergy value.

Companies making an acquisition not only have to meet performance targets the market already expects, but also higher targets implied by the acquisition premium. When they pay acquisition premium, managers are essentially *com*mitting themselves to delivering more than what the market expects on the basis of current projections. More often than not, the acquirers fail to discharge this commitment. Even when the numbers do not justify an acquisition, executives may insist on going ahead for strategic, unquantifiable benefits. In the heat of finalising the deal, what is conveniently overlooked is that most strategic benefits ultimately should lead to *some* form of cost reduction or revenue growth.

Merits of discretion

It pays to remember that the old adage *“discretion is the better part of valour”* in an M&A situation. Rushing ahead to finalise a deal before the competitor does by paying a high premium is often not a wise move. In many cases it makes sense to allow the competitor to pay a higher price and weaken its competitive position rather than rush into the deal.

Acquisitions involve changes and often have a destabilising effect. During the integration of pre-merger entities, stress, tension, uncertainty and an exodus of employees are likely. To avoid this, building a climate of trust among employees of the merging entities is extremely important. Most companies underestimate the difficulties involved in integrating pre-merger entities.

In general, as Michael Porter argues, acquisitions add value for shareholders only when three conditions hold good:

* The acquired company's management is more keen on withdrawing from the business than in continuing to run the operations. So the premium it expects is quite low.
* The market for companies is imperfect and does not eliminate above-average returns through the bidding process. So a good deal is still possible.
* The buyer has unique abilities and competencies which it can use to create value by managing the acquired company's business more efficiently and effectively.

The aim of an acquisition is to make the merged entity more valuable than the sum of the values of pre-merger entities. As mentioned earlier, synergies can add value only if the merged entity registers a performance that is better than what is already reflected in the market prices at the time of the merger.

In almost two out of three acquisitions, the acquirer's stock price falls after the deal is announced. This is a clear indication that the markets tend to be cynical about the realisation of the synergies projected. One reason could be that markets have already discounted the expectation of an improvement in operating performance of the company being acquired. In extreme cases, the markets may even feel that by diverting resources from stronger divisions for the purpose of realising synergies value may be eroded rather than added. Alternatively, acquisitions, by engaging the top management in the integration process, may allow core processes to suffer. A good example is Boeing, which faced a major crisis in its production line in the late 1990s when its attention was entirely focused on its integration with McDonnell Douglas. In India, the portal *lndiainfo. com* made acquisitions at a furious pace during 2000. Preoccupied with managing the integration, *Indiainfo.com* delayed its IPO. This turned out to be a strategic blunder.

Much of the risk in an M&A deal arises from the acquiring company's inability to identify synergies accurately. Often synergies which are highlighted do not materialise, while those which may have been completely overlooked become very important. Usually, it is only years after the acquisition that it becomes clear whether the price paid for the acquisition was the right one or not. Alex Mandi, who negotiated the acquisition of McCaw Cellular on behalf of AT&T, has been quoted as saying: "Everybody said we'd paid too much. But with hindsight, it's clear that cellular telephony was a critical asset for the telecommunications business and it would have been a tough proposition to build that business from scratch. Buying McCaw was very much the right thing to do."

As mentioned earlier, it is easier to achieve cost reduction than to boost sales. However, achieving revenue enhancement through an acquisition, though difficult, is not impossible. When the specialty chemical company, Rolm and Haas, acquired Morton, it aggressively used the acquired company's expertise in polyurethane adhesives and powder coatings and its access to new markets to generate more sales. The Time Warner-Turner Broadcasting System merger was also quite successful in this regard.

The winner's curse

According to the *Business Week* study, CEOs in the US offered high premiums, which were on an average 36 per cent above the seller's market price one week before the deal. In India, too, some acquirers have got into trouble because of the high premiums they paid. Tata Tea reportedly paid £100 million more than the second highest bidder when it acquired the UK based Tetley for £274 million in a leveraged buyout. To service the additional debt burden which Tata Tea took, the company needed to realise cash flows of at least £48 million per annum whereas cash flows were only £29 million in 1999.

'A big mistake most acquirers make is to lay too much stress on strategic, unquantifiable benefits of deal. This results in overvaluation of the acquired company.'

Almost immediately after the acquisition, the situation turned worse when retail prices fell in the UK. In 2001, the Tatas had to inject an additional £30 million to restructure the debt which was becoming increasingly difficult to service. During the year, Tetley's cash flows were only £26.4 million, the interest payout being £23.3 million. After debt restructuring, Tetley expected to save £7.3 million during 2002-03 but even that would not meet the expectations raised at the time of the acquisition.

Indian companies would do well to learn from the experience of Sat yam Infoway (Sify), once the darling of stockmarket investors. One of the major reasons for the downfall of Sify was the huge amount of Rs 499 crore it paid to acquire the portal *[nella World. com* at the height of the dotcom boom in India. This costly acquisition created a lot of hype in the market but clearly did not yield expected returns. In May 2001, Sify quoted below $4, down from $110 in January 2000.

Paying a premium

Clearly, high premiums put a lot of pressure on the management, which often fails to meet the heightened expectations of investors. This may even lead to reckless decisions in some cases. So, the premium must be arrived at carefully.

Porter sounds a word of caution when he points out that an efficient market for corporate control precludes the possibility of the new company generating more returns than what the pre-merger entities generated before the merger. If the management of the acquired company is sound and the company itself has a bright future, its market price would already have been bid up. On the other hand, if its future is bleak or the management is weak, the stock price could be low. But the infusion of capital and effort required to turn it around would also be massive. To the extent that the market for companies is working efficiently, the price of an acquisition will eliminate most of the returns for the buyer, virtually ruling out the possibility of reaping above-average profits from acquisitions.

Acquirers must also be careful about irrational bidders with non-profit motives or those who are pursuing the deal purely because of the idiosyncrasies of top management. In the race companies may end up paying too high a price because of the influence of such bidders.

It is not the external factors alone which drive up the premium. One of the reasons for acquirers paying high prices is the irrational process of arriving at the premium, due to vested interests. A study by Wharton professor Julie Wulf has revealed that CEOs often strike deals that benefit them personally, but are not in the interests of shareholders. For example, CEOs of poorly performing companies and of companies in industries which are rapidly consolidating are more concerned about retaining their positions on the board than in negotiating the best deal for shareholders. The board has to ensure that senior management's personal interests do not supersede the interests of shareholders while fixing the premium.

The portal *Indiainfo.com* made acquisitions at a furious pace. Preoccupied with managing the integration, it delayed its IPO. This turned out to be a strategic blunder

Sirower has summed up various factors which must be considered while working out premium:

* Market expectations about the acquired company, when considered alone.
* Impact on competitors and their possible responses.
* Tangible performance gains from the merger and the management talent necessary to achieve the gains.
* Additional investments which will be necessary.
* Comparison of the acquisition with alternative investments.
* Ease of implementation.

Stock Vs cash deals

The way a deal is financed determines how risk is shared between the buyer and seller. In general, there are two types of risk faced during an acquisition - the fall in the share price of the acquiring company from the time of announcement of the deal to its closing, and the possibility of synergies not being realised after the deal is closed. In a cash deal, the acquiring company assumes both the risks completely. In stock deals, the risks are shared between the two entities. Stock swaps can be of two types - fixed value, or fixednumber. If a fixed value of the acquiring company's shares is offered to the acquired company, the first risk remains with the acquiring company, but the second risk is shared by the two companies. If a fixed number of shares is offered to the acquired company, both the risks are shared between the two companies.

The method of financing the deal is influenced by various factors. If the acquirer feels its shares are undervalued, it may prefer a cash deal as any fresh issue of shares would further erode the wealth of existing shareholders. If the acquirer is confident about actually realising projected synergies, a cash deal makes sense. Where this is lacking, a stock deal allows the risk to be partially hedged. A fixed value offer indicates that the acquirer is more confident and tends to be better received by the market. A fixed share offer minimises the pre-closing market risk for the acquirer but acts as a kind of self-fulfilling prophecy and drives the share price downwards. Similarly, cash deals, contrary to popular perception, are received more positively by markets. According to Sirower, "Paying with stock is a strong signal that not only do you think your shares are overvalued but that you are not totally confident about the success of the deal"

Integration

Many mergers fail at the integration stage. So, it is important to understand the risks involved in integration and the ways to manage these. The integration process should be guided by a strategic vision. The vision should be backed by an operating strategy which takes into account how the operational performance can be improved, whether competitors will react aggressively, and if they do, how they can be dealt with.

Vision and operating strategy must be supported by proper systems and processes to align the behaviours of managers with corporate objectives. In some areas, the two entities should be tightly integrated while in others they should be left alone. What to integrate and what to leave alone is a matter of judgement.

The 1986 merger of Burroughs and Sperry illustrates some of the difficulties involved in the integration of pre-merger entities. The two computer makers, who came together to form Unisys, felt that the merger would generate economies of scale, improve efficiencies and boost price competitiveness. The integration of distribution systems was a disaster. The companies had different order-entry and billing procedures. Mter the attempted integration, equipment orders were executed late and customers were often frustrated by delayed deliveries. By November 1990, the stock price of Unisys was only $3 per share. About 90 per cent of shareholder value had been destroyed.

The 1986 acquisition of Republic Airlines by Northwest Airlines also created similar problems. Integration of the two computer systems, crew and gate scheduling and human resources functions ran into serious problems. Tensions also rose because Republic's employees, on an average, drew lower salaries than those of Northwest. As morale plunged, customer service deteriorated. Matters continued to worsen till 1989, when Northwest was bought out by a group of private investors.

Even Ajay Piramal, one of India's more successful deal-makers, has admitted: "We were bang on target on our acquisitions by buying them cheap, but our integration process (sometimes) failed." That's why while integrating Rhone- Poulenc, Piramal decided to play it safe by appointing Accenture as consultant. He also became personally involved in rationalising the operations. This led to a manpower cut of 43 per cent.

Leadership matters a lot during the integration of premerger entities. In general, it is advisable not to have two bosses after the deal is closed. Decisive leadership is best provided by a single individual, not by a two-man team or committee. Indeed, if two coCEOs are named after the merger, a period of uncertainty might follow during which people wait to see who finally gains the upper hand. In the Citicorp-Travelers Group merger, Sandy Weill of Travelers took control, ousting Citicorp's John Reed. In the DaimlerChrysler merger, Jurgen Schrempp gained ascendancy over Chrysler's Bob Eaton. In both cases, until a clear leader emerged, things were in a state of flux and employees remained confused.

'A common error in M&As is the tendency to underestimate the challenges involved in integration. As a result actually realized synergies turn out to be well short of projected ones.'

In an article titled *"Beating the odds of M&A failure"* by Toby J Tatenbaum, the author has emphasised the need for a comprehensive role for the human resources (HR) function in negotiations *before* a merger deal is finalised. HR managers usually enter the discussions much later to deal with issues like compensation. Instead, if they join the discussions at an early stage and conduct a cultural audit, potential trouble spots can be identified early on. Tatenbaum provides seven guidelines for managing the integration process.

- The integration team should build organisational capability by retaining talented manpower. Tatenbaum's research reveals that 47 per cent of senior managers in an acquired firm leave within the first year of acquisition and 72 per cent within the first three years. Downsizing activities must be managed with a great deal of sensitivity. Otherwise, they may fuel large scale exodus of people. A related issue is finding the right roles for people. Cisco, for example, tells employees clearly what their new jobs will be after the merger and to whom they will report.

- Systems and procedures that are implemented must be in line with the strategic intent of the acquisition.

- The integration team must identify the cultural traits that are consistent with the business goals of the merged entity and take steps to spread them across the two entities. The team must manage cultural differences by collaborating with managers throughout the organisation. Superordinate goals can be set to motivate the two entities to work together.

- The tendency to drift should be minimised by managing the transition quickly. If decisions and changes are not implemented fast, the acquirer may become focused on internal issues and lose sight of customers and competitors. Decisions about layoffs, restructuring, reporting relationships, etc, must be made within days of the deal being signed and communicated quickly to employees. However, care must be taken to ensure that people are treated with respect and sensitivity.

- Employees tend to be selective while receiving messages during the early days of a merger, when anxiety levels are high. So, some messages may have to be repeated. Besides internal communication with employees, management must also keep external stakeholders such as customers, vendors and the community informed.

- When a company has decided to pursue a strategy of growth by acquisitions, clearly defined integration plans can be helpful. The company should identify the team which will conduct due diligence and the team which will plan and implement the merger. Checklists must be prepared to indicate the tasks and suggested deadlines. Cisco, which makes acquisitions at regular intervals, uses a standard business process for managing acquisitions.

Tata Tea is believed to have paid millions of dollars more than the second highest when it acquired Tetley. It had a tough time servicing additional debt required for the buyout

Table 1:
Acquisitions announced in India during 2002-03

	No of deals	Consideration (Rs Crore)
April 2002	92	1783
May 2002	80	5913
June 2002	66	1439
July 2002	99	2321
August 2002	79	1921
September 2002	74	2201
October 2002	67	1753
November 2002	47	805
December 2002	66	1316
January 2003	54	1253
February 2003	53	765
March 2003	66	1712
April 2003	70	1150
May 02- April 03	**821**	**22550**
May 01-April 02	**1033**	**35304**

Communicating effectively

Communication plays an important role during the integration of pre-merger entities. Genuine communication increases the perceived benevolence of the management and promotes trust. It minimises the negative reactions of employees in the acquired company. As a popular saying goes, the certainty of misery is better than the misery of uncertainty. Lack of communication increases uncertainty and weakens the confidence of employees in the management. Effective communication is necessary to ensure that rumours are not allowed to fill the information gap. Employees must be informed about the acquiring company, the proposed changes and its impact. All efforts should be made to reassure employees of the acquired firm and familiarise them with the strategic intentions and philosophy of the acquiring company.

In the case of cross-border acquisitions, the role of communication is even more critical. Immediately after the acquisition, employees need to know what will happen to their jobs, colleagues and company. It is only through honest communication that their anxieties can be set at rest. Here, the quality of communication is the overriding factor. Later, when employees have to adjust to the changes, frequency of communication becomes important. Frequent communication, however, does not imply that all details can be communicated, especially when the management itself is not clear about how things will evolve. But transparency and frankness will send the right signals even if all the information cannot be shared.

Acquirers also need to demonstrate to employees of the acquired company that there will be consistency and openness in the new environment. When Intel acquired Chips & Technologies in 1997, it decided to integrate it with one of its divisions, though it had at first announced that it would keep the acquired company as a separate unit. Many key people left, sharply undermining the benefits of the acquisition. Similarly, when IBM acquired telecommunication equipment maker Rolm in 1984, it made the mistake of dictating terms to the acquired company's employees. As key technical employees left, the takeover proved ineffective and IBM had to sell Rolm to Siemens.

Cultural differences

More often than not, significant cultural differences exist between pre-merger entities. Understanding these is the first step in integration. Consider the following examples.

- The merger of UK-based Beecham and the USbased SmithKline involved not only two national cultures but also two business cultures - one very scientific and academic and the other more commercially oriented.

- The American pharmaceutical company Upjohn's centralised and aggressive culture clashed with Swedish major Pharmacia's decentralised, laid-back management style.

- After the merger between DaimlerBenz and Chrysler, the Germans and Americans struggled to understand each other and their ways of working. Daimler's bureaucratic engineering culture, in which different departments worked separately, clashed with Chrysler's cross-functional product development approach.

- Cultural clashes can be significant in industries such as the media, where egos tend to be big. This was so in the case ofthe 1989 merger between Time and Warner.

- Cultural differences became important when Aetna, a tradition-bound, slow-moving organisation, merged with US Healthcare, considered to be an aggressive and entrepreneurial Health Maintenance

Organisation (HMO).

- Citicorp's staid, buttoned-down world of traditional commercial banking was different from Travelers Group's free-wheeling, deal-making, investment banking culture.

- The Exxon-Mobil merger saw the coming together of two contrasting cultures. Exxon was generally considered to be risk -averse and aloof. Mobil, on the other hand, was more risk-tak" ing and accepted new ideas.

- Cultural differences became a big issue when *Indiainfo.com* took over several websites during 2000. The entrepreneurs whose websites . were taken over led frugal lifestyles whereas *Indiainfo's* managers were used to lavish ways.

- In the case of the recent reverse merger between ICICI and ICICI Bank, despite the hype created, the cultural issues could not be wished away. ICICI Bank was young and more customer-oriented whereas the stodgy ICICI was a product of licence *raj.*

- After the acquisition of IPCL by Reliance, cultural issues have become important. Reliance has attempted to move fast. Many talented erstwhile IPCL employees seem to be leaving because of the difference in management styles between an erstwhile PSU and an agressive growth-oriented management.

Earlier, we said that the extent of integration between pre-merger entities is a matter of judgement. To a great extent, the degree of integration depends on cultural factors. Clayton Christensen makes an interesting observation. An organisation has three broad types of capabilities - resources, processes and values. Resources can be easily transferred, while processes and values are deeply entrenched and difficult to change. If the acquired company's processes and values have been the main contributors to its success, the company should be left well and truly alone. The parent company can pump resources into the acquired company. If a company is being acquired for its resources, tight integration may make sense. Many of Cisco's acquisitions have been aimed at acquiring resources in the form of products and people. The company's acquisitions are typically startups, which do not have deeply entrenched values. Cisco typically transfers the acquired company's resources into the parent company's processes and systems.

Management of cultural differences is a major challenge while integrating basic work processes and systems. In general, when cultural differences are too sharp, it makes more sense to keep the acquiring and acquired entities separate even at the cost of foregoing some efficiency.

Managing tech M&As

Acquisition is an important growth strategy in hightech businesses. Microsoft and Cisco are good examples. It takes quite a bit of time to develop new technology inhouse. Acquisitions not only allow a firm to make use of a new technology faster, but also bring talented manpower into the organisation.

Due diligence is very important in high-tech acquisitions as the value of the technology being acquired is often not easy to arrive at. AT&T acquired NCR in 1991 hoping that telecommunications and desktop computing technologies would converge. After the acquisition, AT&T discovered that substantial differences existed between its competencies in switching and NCR's technology. Consequently, synergies were very difficult to achieve. NCR's PC capabilities were also weaker than what AT&T expected. On the other hand, Advanced Micro Devices (AMD)'s acquisition of NexGen, a $860 million deal, paid off. AMD conducted a thorough check on NexGen before acquiring it in 1996. NexGen's unique chip design capabilities enabled AMD to develop new products and take on mighty Intel.

All acquisitions have to be managed with a high degree of people orientation. But this is even more so in the case of high-tech acquisitions. How the purchased company fits in and the role of employees of the acquired company need to be clearly communicated. Often, it makes sense to keep the new people together in a separate division and make the major promoters of the purchased company key members of the integration team. In particular, companies acquired for their ability to develop breakthrough technologies must generally be allowed to continue as separate entities. Care should be taken not to disturb their key technical teams. By keeping people who have complementary capabilities and a good understanding of each other in one place, their productivity can be significantly enhanced.

Table 2:
Mergers announced in India during 2002-03

	No of deals
April 2002	13
May 2002	25
June 2002	49
July 2002	41
August 2002	35
September 2002	19
October 2002	52
November 2002	15
December 2002	19
January 2003	26
February 2003	13
March 2003	35
April 2003	13
May 02- April 03	**342**
May 01-April 02	**320**

Whenever a high-tech acquisition is planned, it is important to examine whether the employees of the company being acquired have enough incentives to stay. Employees whose stock options are already vested may decide to quit if they sense that their importance may diminish or their creativity will be stifled after the merger. So, hostile takeovers should generally be avoided in high-tech businesses. They create suspicions in the minds of employees of the acquired company. Once trust is breached, retaining talented people is virtually impossible.

Concluding notes

In their obsession with growth, companies often strike M&A deals of questionable merit. A dispassionate analysis of the potential benefits and pitfalls involved is important before going ahead with a merger. Board members have an important role to play here, especially external directors. CEOs must be thoroughly grilled and asked to explain the benefits of the merger. Once the decision to go ahead is announced, the focus shifts to integration. This is a task which is underestimated by most companies.

In the final analysis, it is the efficiency with which the integration process is managed that decides whether projected synergies materialise. Not all mergers fail. The acquisition of Corporate Express by Buhrman is a good example. The Dutch company announced a $1 billion cash bid, a clear indication of its confidence in the deal. It paid a premium of only 24 per cent. Right from the start, the markets appreciated the deal. Buhrman's stock rose by 20 per cent immediately after the deal and had risen by 110 per cent a year later. Similarly, companies like Nestle and Cisco have driven their growth through acquisitions. But past evidence clearly indicates that success in M&A is less likely than failure. The difficulties in planning and executing acquisitions and alliances make them very risky. CEOs, in their rush to complete deals, should never underestimate the risks involved.

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The above article is a synopsis of the global learnings in M&As compiled from various books and articles on the subject published in India and abroad. Reference has been made to only the more important studies on the subject in this article.