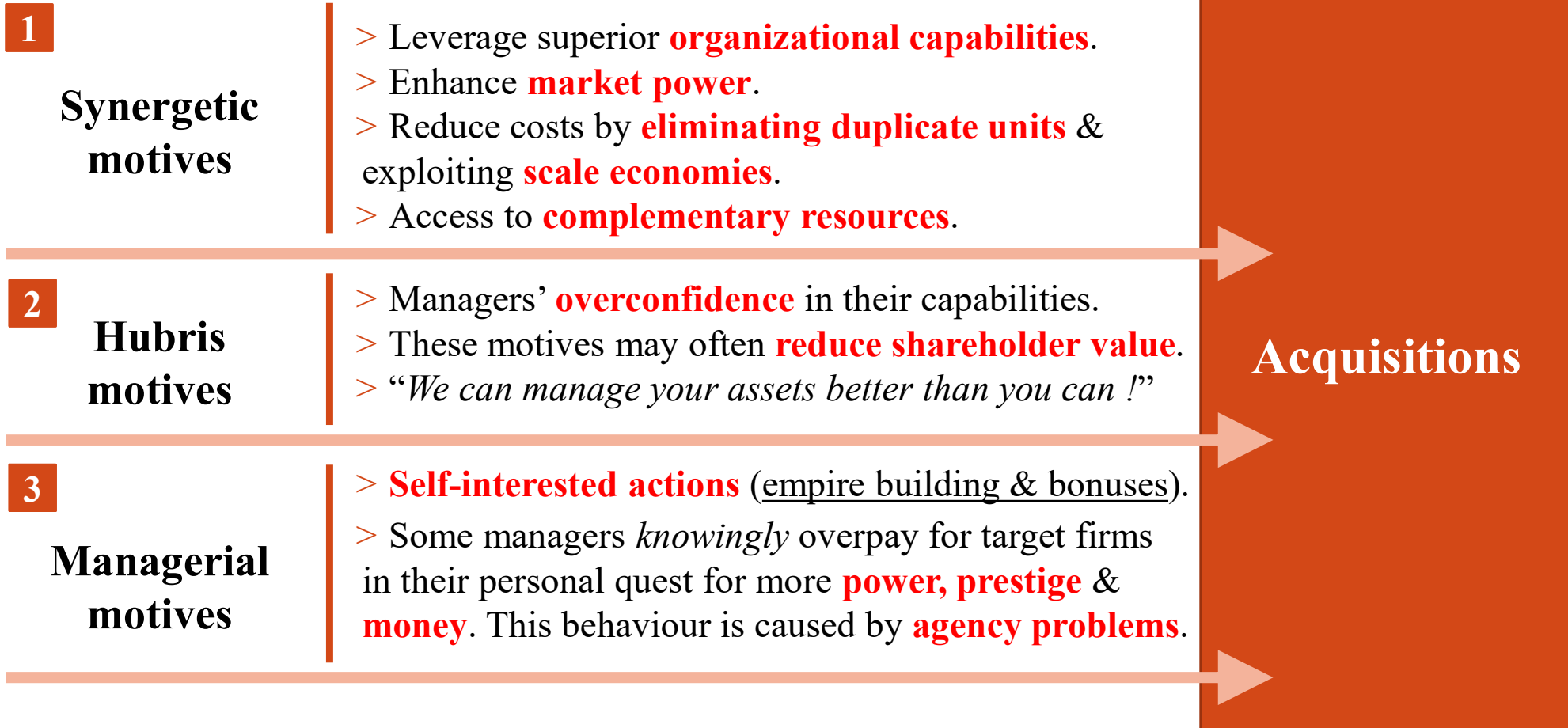


Growth by Acquisition



■ What are Motives for Acquisitions?





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-  **5. Resources Influencing M&A Performance**
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7. Implications for Practice

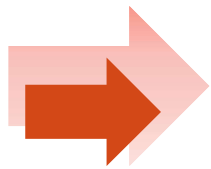


■ Value-Destruction or Value-Creation?

- ❖ As many as 70% of acquisitions reportedly fail.
- ❖ Acquiring firms' performance does **NOT IMPROVE** after acquisitions on average.

■ The Failure Case of Daimler-Chrysler

- ❖ In 1998, Daimler paid US\$35 billion to acquire Chrysler, a 40% premium over market value.
- ❖ In 2007, Chrysler was sold to Cerberus Capital, US\$7.4 billion.



Consequently, 4/5 of the value had been lost !




■ Why Acquisitions Often Fail?

Pre-acquisition: Overpayment for Targets

- > Managers **OVERESTIMATE** their ability to create value.
- > **INADEQUATE** pre-acquisition screening.
- > **POOR** strategic fit.
- > **LACK** of familiarity with foreign cultures, institutions & business systems.
- > **NATIONALISTIC** concerns against foreign takeovers (political & media levels).

Post-acquisition: Failure in Integration

- > **POOR** organizational fit.
- > **FAILIURE** to address multiple stakeholder groups' concerns.
- > **CLASHES** of organizational cultures linked to clashes of national cultures.
- > **NATIONALISTIC** concerns against foreign takeovers (firm & employee levels).

 The case of **Daimler-Chrysler: Little organizational fit** (e.g., American managers resented the dominance of German managers).



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■ Hidden Champions

- ❖ ... was coined by **Prof. Dr. Herrman Simon** who leads a global consulting firm.
 - Germany's infamous *Mittelstand* (medium size) firms have

SIMON • KUCHER & PARTNERS
Strategy & Marketing Consultants



– REVENUE BELOW USD4 BILLION.







❖ Where do the Hidden Champions come from?

- Out of **2,000** companies considered as the Hidden Champions, **2/3** come from **Germany**, followed by **Scandinavia & Northern Italy**.





■ Hidden Champions: Medium-sized Firms with Global Market Shares of 70% or Higher

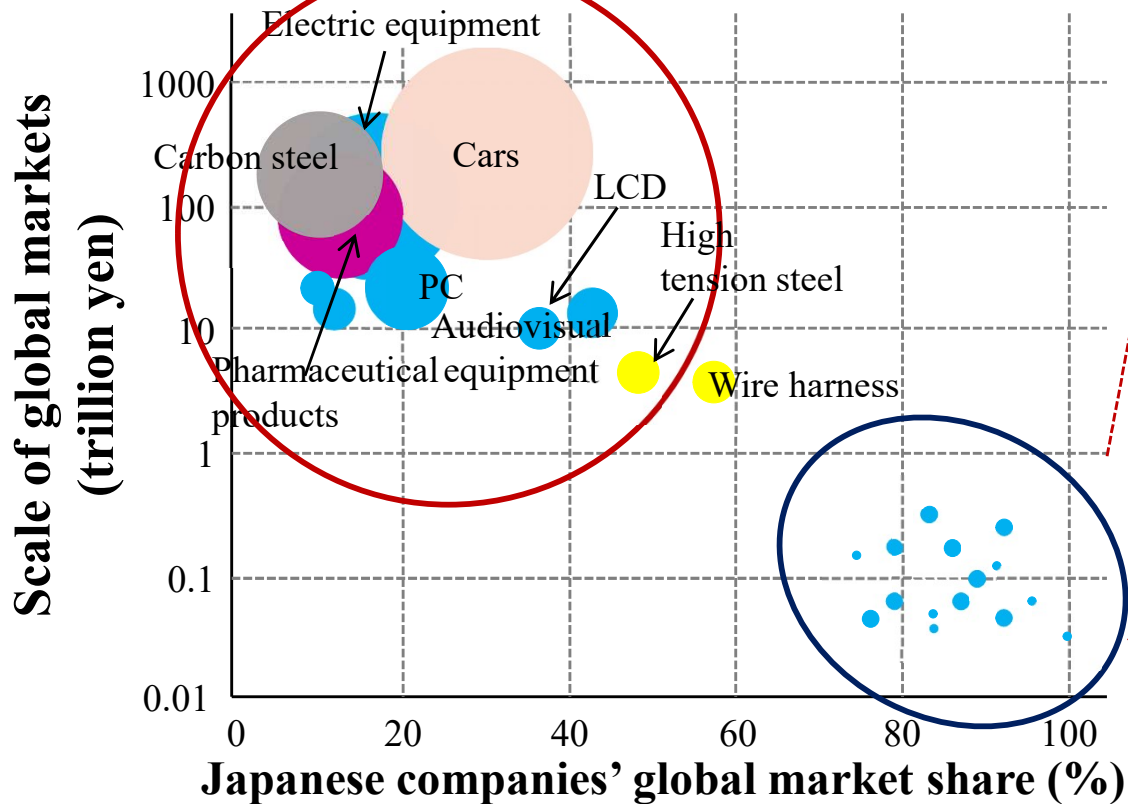
Company	Main Product	World Market Share
Dr. Suwelack 	Collagen	100%
Sky Sails 	Towing kite wind propulsion systems	100%
Gerriets 	Theater curtains, stage equipment	100%
Ulvac 	LCD panel coating	96%
G.W. Barth 	Cocoa processing systems	90%
GKD 	Metal fabrics	90%

Source: Simon, H. (2009: 73).

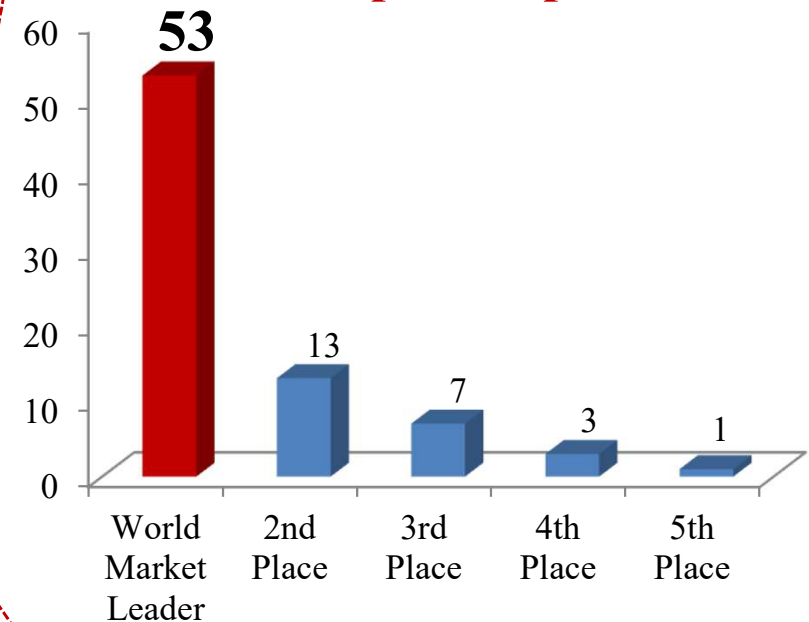
Debates & Extensions



Winning Global Markets



Number of Japanese Global Niche-Top Enterprises



A number of Japanese firms enjoy their competitive edge in specific product areas.

Source: Fuji Chimera Research Institute, Inc. (2014). *Wagakuni Kigyō no Kokusai Kyōso Position no Teiryōteki Chōsa*, 1-526.
Own illustration based on *Kaisha Shikiho* (2012) for the figure on the right-hand side.



■ Winning Global Markets

1



Nippon Shokubai has the world's top-class production capacity for acrylic acid & superabsorbent polymers (**Global market leader**).

2



Rheon Automatic Machinery has been manufacturing a wide range of high quality bread production machines (**Global market leader**).

3



Toray having a 40% market share has competitive superiority in developing, manufacturing & supplying carbon fibre materials (**Global market leader**).

4



The Yaskawa Electric Corporation manufactures servos, motion controllers, AC motor drives, switches & industrial robots & it is ranked the 1st in the area of servo motors (**Global market leader**).



■ Hidden Champions: '8' Major Successful Elements

FOCUS

- > Concentrate on **one area**
- > Focus includes “*knowing what you do not want to do*”.

GLOBALIZATION

- > The **Internet**
- > Modern **transportation**

INNOVATION

- > Fit between **market & technology**

CLOSENESS TO CUSTOMER

- > **Customer orientation** > competitive orientation
- > The **long-standing relationships** with customers

HIGH PERFORMING EMPLOYEES

- > The rigorous selection of the **right employees**
- > **Low employee turnover**
- > **Less top-down** intervention

DEPTH

- > An incredible depth in the value chain system & the **high vertical integration**

DECENTRALIZATION

- > **Freedom** for execution & implementation
- > A means for mobilizing **entrepreneurial energies**



Source: Simon, H. (2009: 351-356).



■ Global Focusing

❖ ... refers to a strategic shift from **DIVERSIFICATION** to **SPECIALIZATION** which increasing the international profile.

❖ Characteristics of globally focused firms

- Strong roots in diversified **CONGLOMERATES** of the 1950s & 1960s.
- Focused on their home markets due to **BARRIERS** to trade & investment.
- The reduction of trade barriers allowed them to strengthen **A GLOBAL SCOPE** within **a much sharper defined industry**.

❖ **HOW** can companies that formerly diversified in a local or regional market develop a global strategy? (**3** ways)

- I. Divestment;
- II. Acquisition; &
- III. The sale of business units.



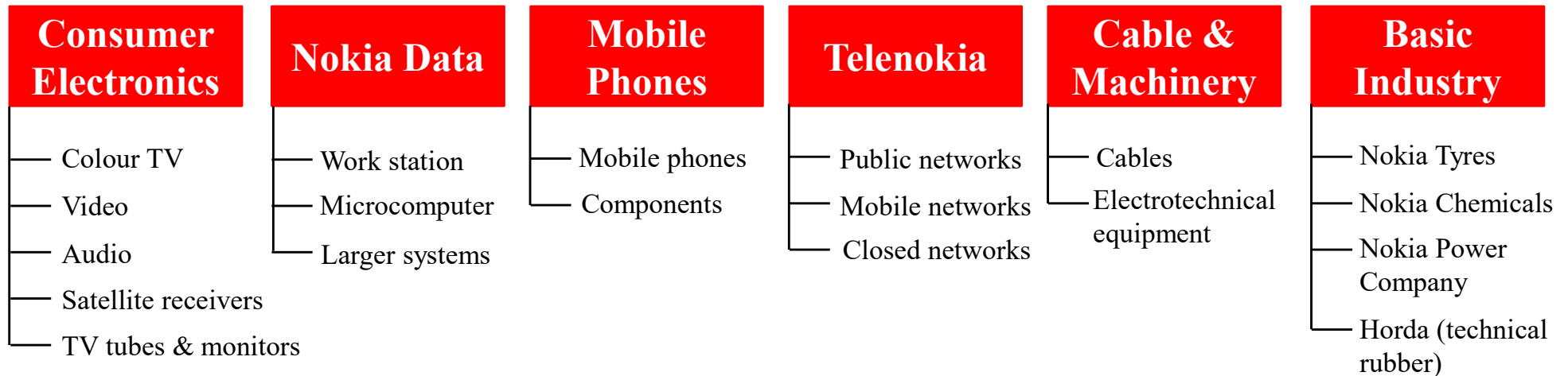
Debates & Extensions



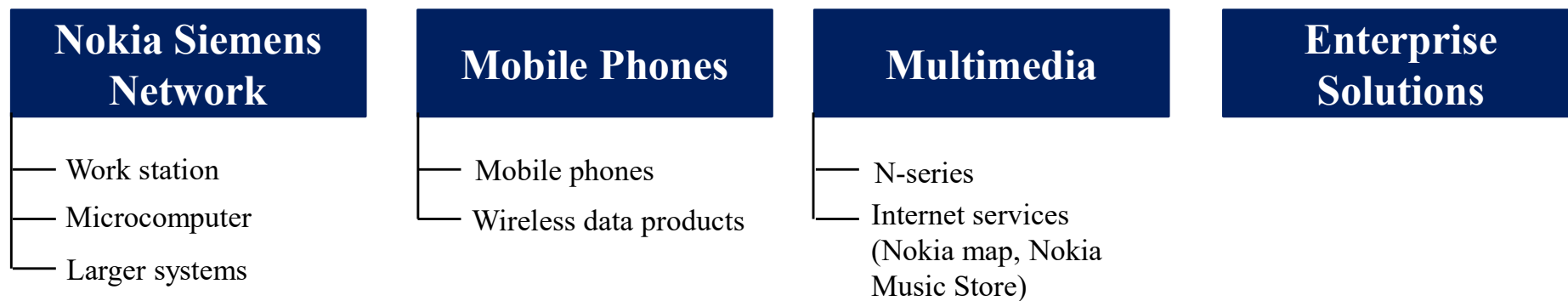
■ Global Focusing: Nokia OY 1990-2008



1990

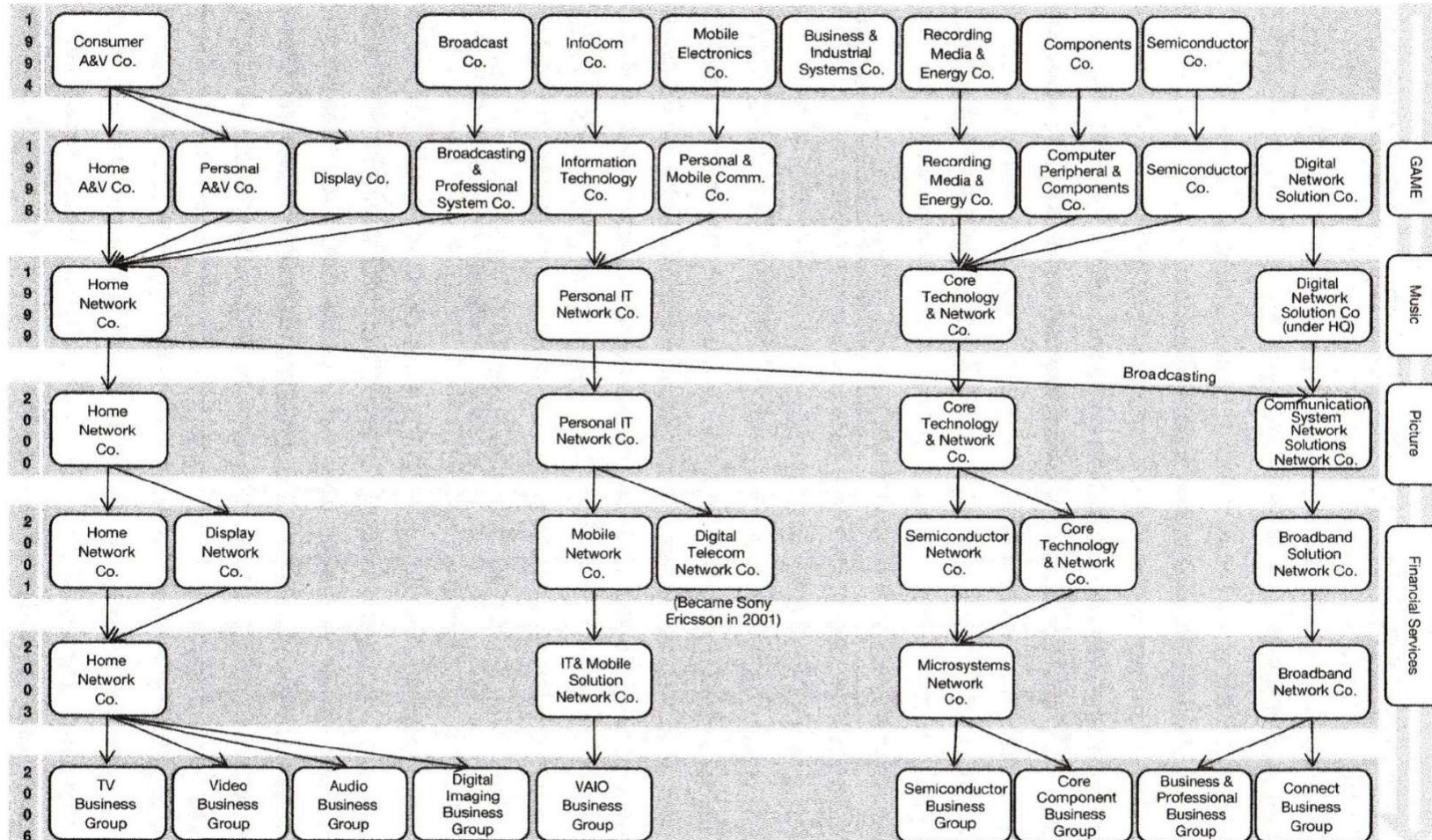


2008





■ Changes in Sony's Organizational Structure



Source: Chang (2008: 111).



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Implications for Practice



■ What Should Managers Care About?



- ❖ Each firm needs **a business model** that **creates value** from the resources at its disposal around the globe !
 - **Danisco (Denmark)**: Food ingredients (e.g., stabilizers, enzymes & flavours) were developed, manufactured & distributed.
 - **Kärcher (Germany)**: High-pressure cleaning equipment.



- ❖ Managers are advised **not to overpay** for targets & to focus on both **strategic & organizational fit**, when managing **M&As** !
 - Misalignment may result in low morale & high staff turnover.
 - The cultural clashes between Daimler & Chrysler.



- ❖ What does it mean by “**the formation of a strategic alliance**”?
 - It may be (1) a fancy term for a JV, (2) a partial acquisition that is the first step towards a full take-over, (3) a divisional merger that secures the long-term viability of a struggling business unit, & (4) an extensive operational collaboration between 2 or more parties.

Global Strategies & Acquisitions II
(Mike Peng & Klaus Meyer, International Business)

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

Special Topics in Internationalization

Università degli Studi di Bergamo

Dipartimento di Scienze Aziendali

Bergamo, ITALY

“Daimler Merges & Demerges”



■ Questions

- What is the **central argument** of this article?
- Explain the **advantages & risks** of **transforming Daimler** into **an integrated technology group** like Siemens or GE.
- Discuss the underlying **rationale** for **converting Daimler** into **a multi-brand global car maker**. Is it positive or negative?
- Clarify the **merits & risks** of Daimler **focusing exclusively on** its **Mercedes Benz brand** for passenger cars & trucks.

“Daimler Merges & Demerges”



■ Key Points

- ❖ **Ambitious growth strategies by Daimler’s TMT.**
- ❖ **Domestic acquisitions in the 1985.**
 - **MTU** (defense contractor) / **Dornier** (small aircraft manufacturer) / **AEG** (white goods conglomerate).
- ❖ **Shifting focus from a military hardware to civilian aircrafts due to the fall of the Iron Curtain in 1990.**
 - **Fokker** (Dutch business jet provider) **acquired BUT** went into **insolvency** due to **significant competitive pressures**.
- ❖ **Daimler’s acquisition of Chrysler in 1998 BUT huge failures.**
 - **High levels of hubris & significant managerial self-interests.**
 - **Little organizational fit = a lack of human integration.**
- ❖ **Partial acquisitions of Mitsubishi (34%) & Hyundai (10%).**
- ❖ **Global focusing through automotive technology & branding.**

“Daimler Merges & Demerges”



■ Is Business Diversification A Source of Competitive Advantage?

❖ *Benefits of Business Diversification?*

- Ensure **a regular revenue stream** by extending your portfolio of product.
- Extend **a brand reputation** into other markets.
- Opportunities to expand product offerings or expand into **new markets**.

❖ *When to Diversify Your Business?*

- Diversification is good when **your core business is stable & profitable**.

❖ *Hidden Costs of Diversification?*

- **Complexity & difficulty** of coordinating different businesses.
- **Lack of expertise or knowledge** about new businesses.

❖ *What is Sony’s Diversification Pattern? Unrelated?*

- Sony finds itself **thinly stretched with too many products** while being targeted by too many rivals.



■ Questions

- Why is this article **important**?
- Do you believe that Nomura was **successful** in the **post-integration process**?
- Explain **HRM systems** inherent in the **Japanese business system**.
- What **managerial implications** can you draw from this case?



■ Key Points

- ❖ **Nomura’s acquisition of Lehman’s assets in Europe & Asia.**
- ❖ **Securities brokerage & investment banking.**
- ❖ **A hard-charging NY investment bank + a hierarchical Japanese firm practicing lifetime employment = ?**
- ❖ **To retain talents, Nomura guaranteed ex-Lehman employees’ astronomical pay level for 3 years. → Why is this problematic?**
- ❖ **Nomura’s personnel rotation system? Generalists vs Specialists?**
- ❖ **Jesse Bhattal’s (Deputy President & a former Asia-Pacific CEO of Lehman) interactions with the board?**
- ❖ **Overall, what is difficult in the post M&A integration process?**

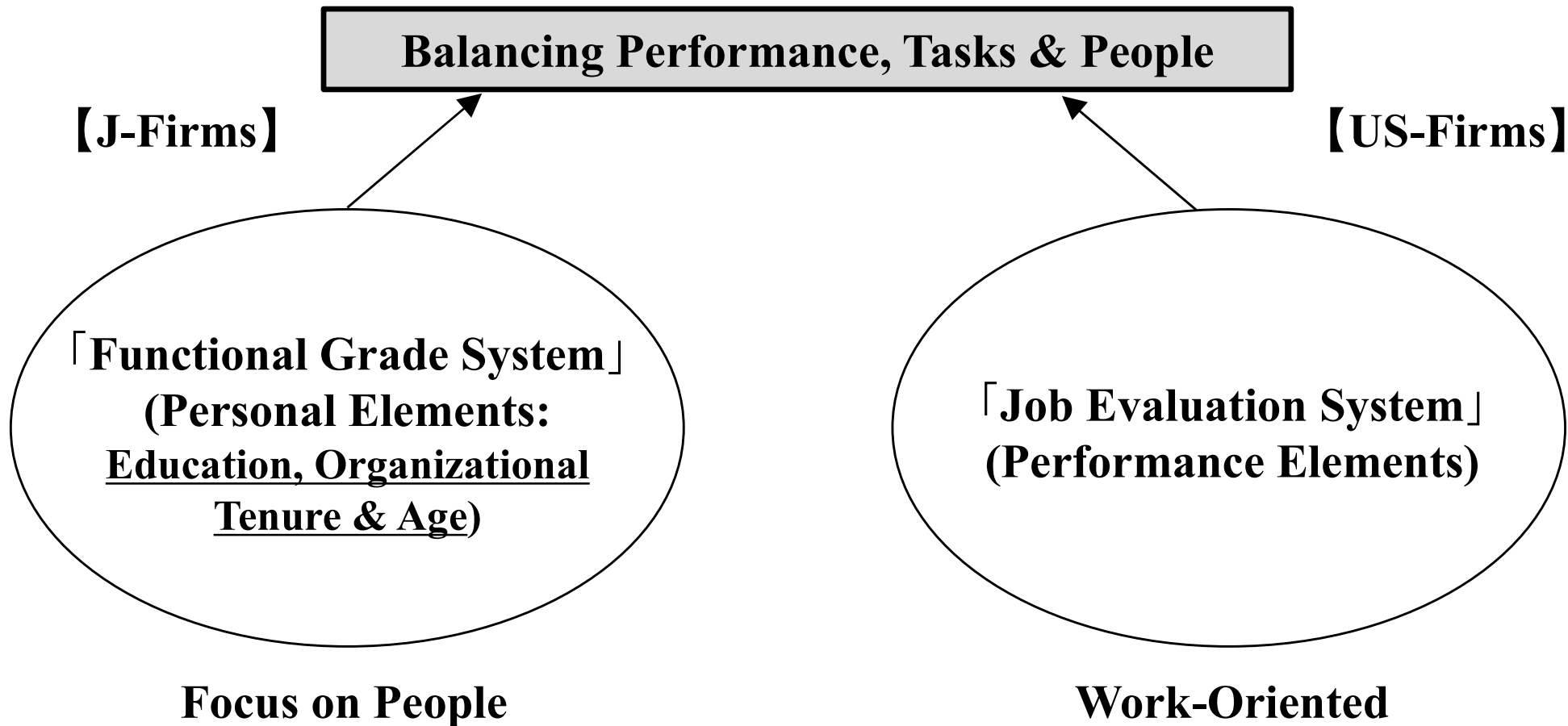


■ Japanese HRM Systems

- ❖ Employer provides **job security** while **employees cooperation**.
- ❖ **Lifelong employment** has a complementary relationship with the main bank system, the *keiretsu* system, & employee participation.
- ❖ The **insider-centered character** of Japan’s permanent employment system develops on the basis of ‘4’ types of HRM institutions:
 - (1) **Human capital development:** On-the-job-training (OJT), quality circles, job rotations, & small group activities.
 - (2) **Compensation system:** Seniority-plus-merit wage, internal promotion, bonuses, corporate pensions.
 - (3) **Employment adjustment methods:** Hiring freeze, *tenseki* & *shukko*.
 - (4) **Internal enforcement & coordination mechanisms:** Enterprise unions, workplace socialization.



■ Different Remuneration Systems in Japan & the US



Source: Nemoto (2006:133).

Gill, C. (2012). “Cross-Border Mergers & Acquisitions: The Cases of Renault-Nissan & DaimlerChrysler-Mitsubishi”, *Human Resource Management*, 51(3), 433-456.

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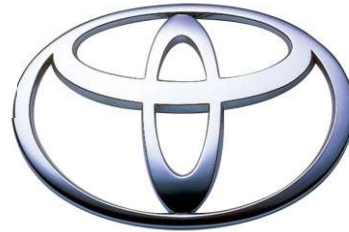
Global Automobile Industry



1



2



3



4



5



6



7



8

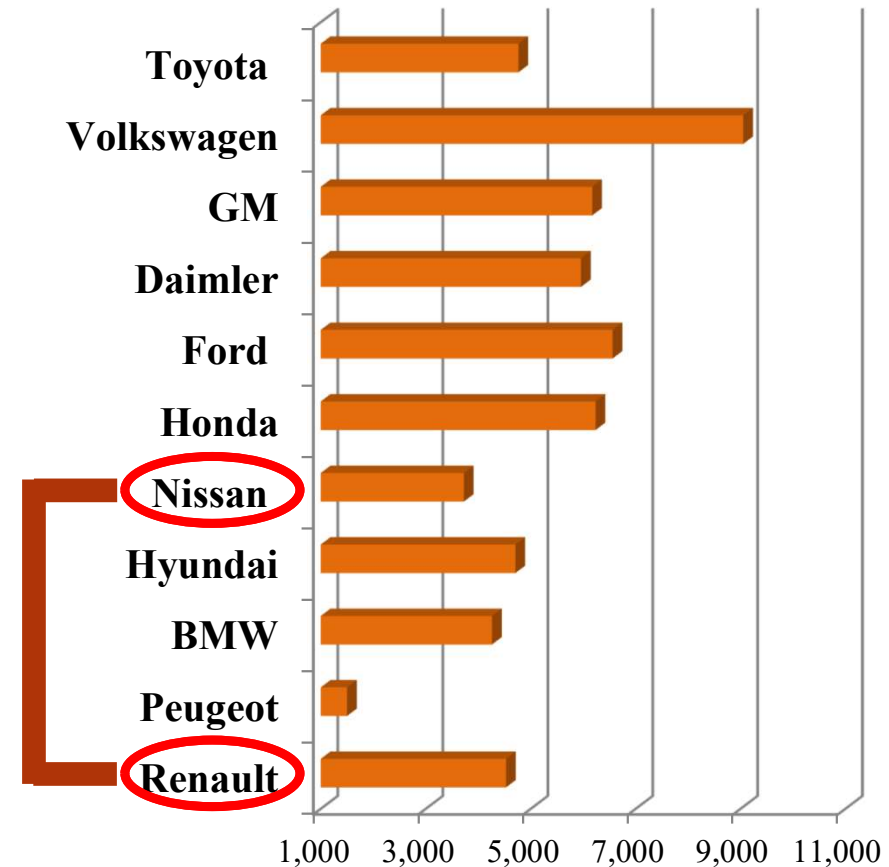
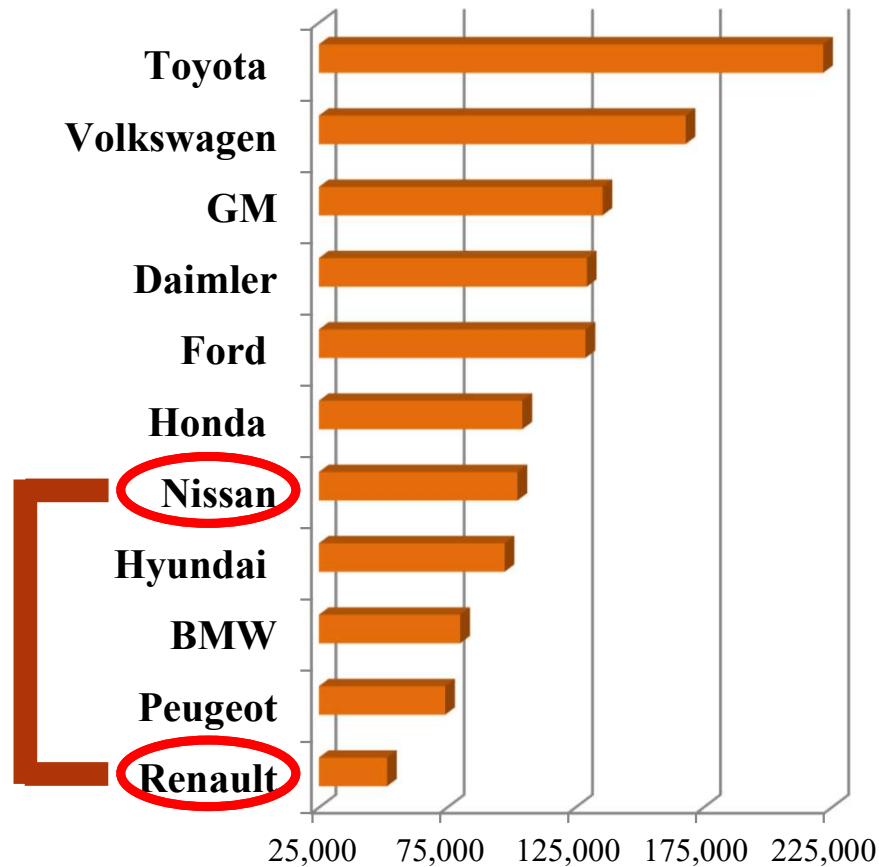


Competitiveness of Nissan & Renault (2011)



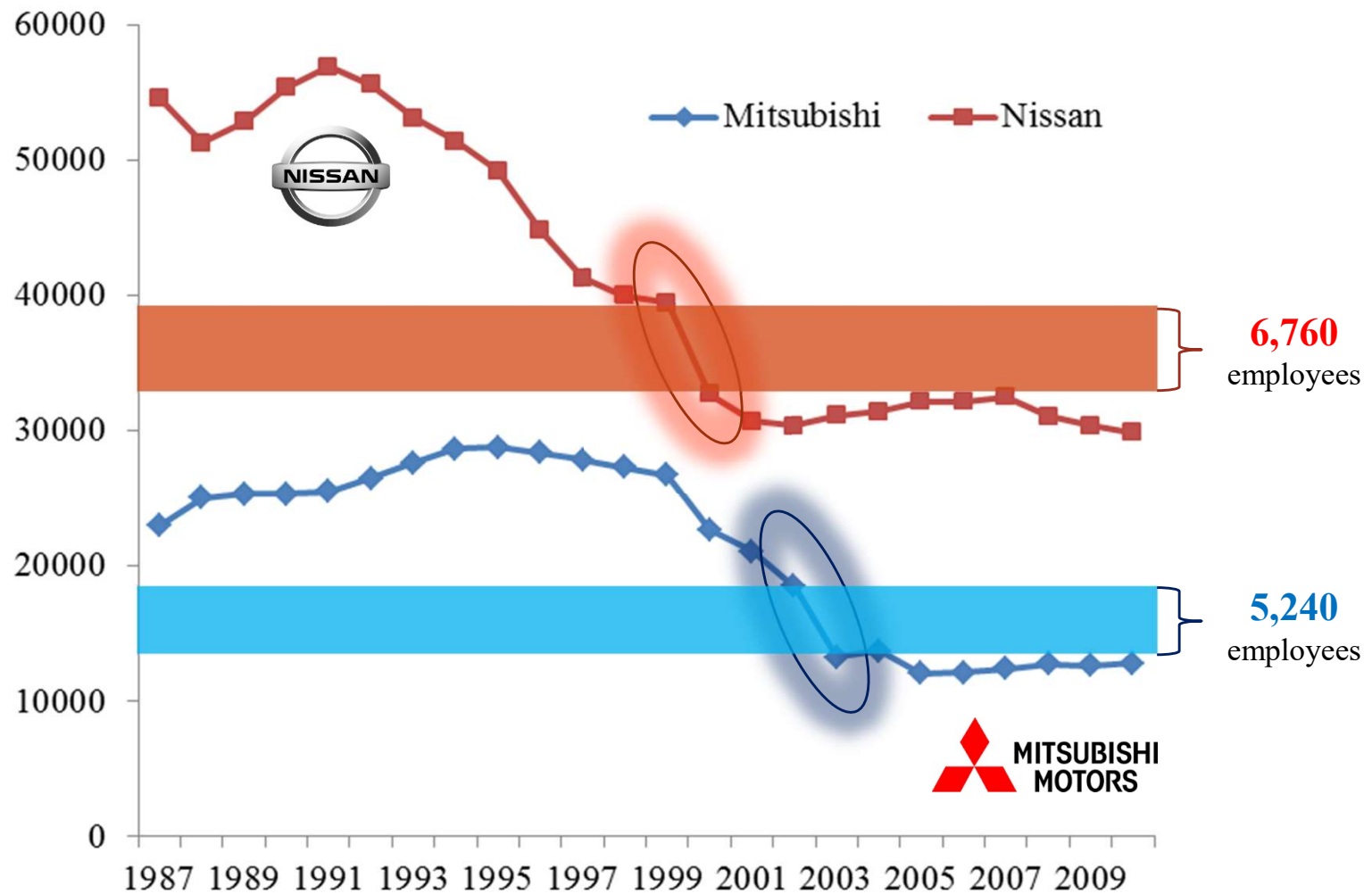
Revenue (US\$ million)

Profit (US\$ million)



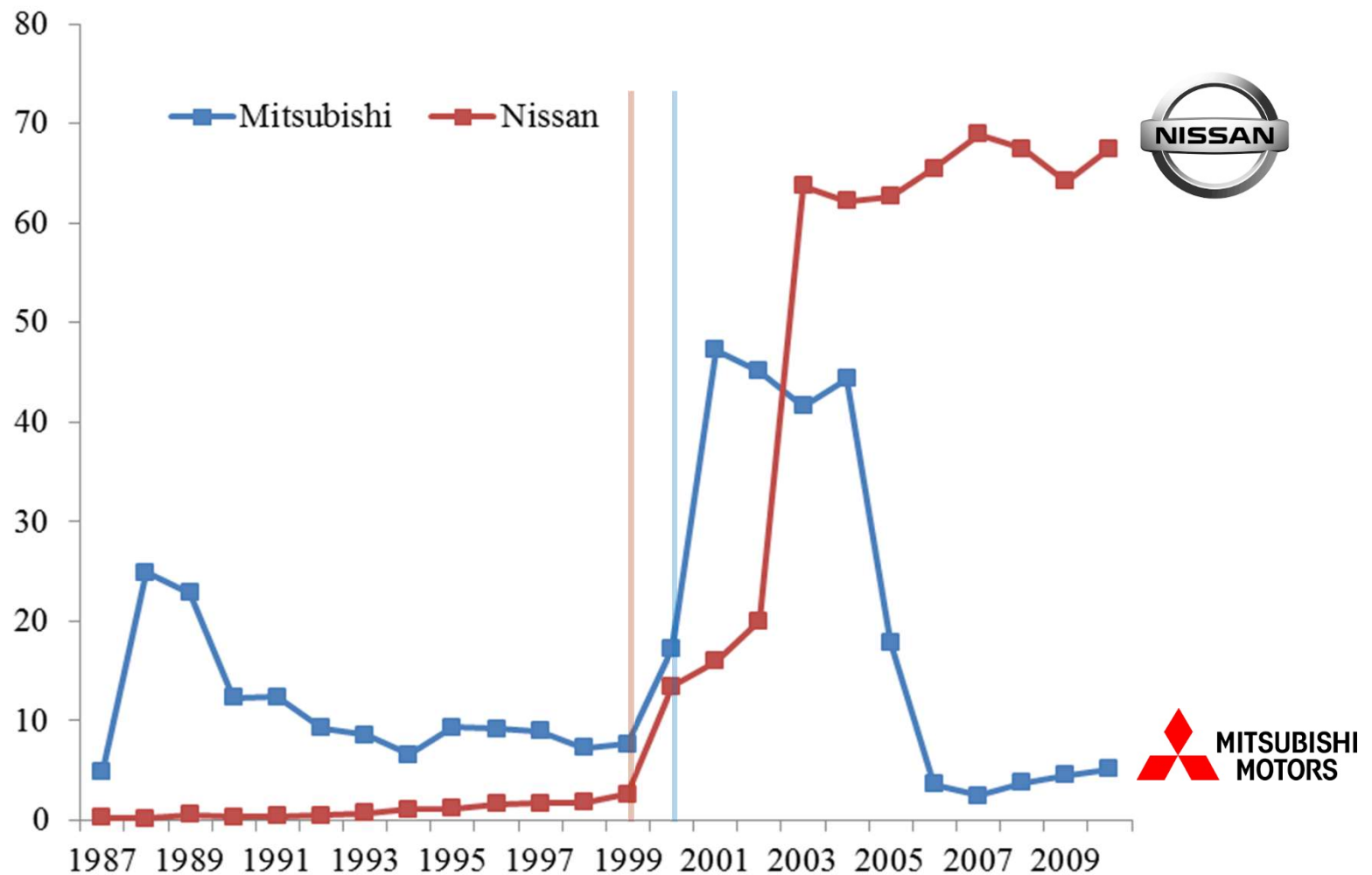
Source: Own illustration based on http://money.cnn.com/magazines/fortune/global500/2011/full_list/

Changes in Employee Size



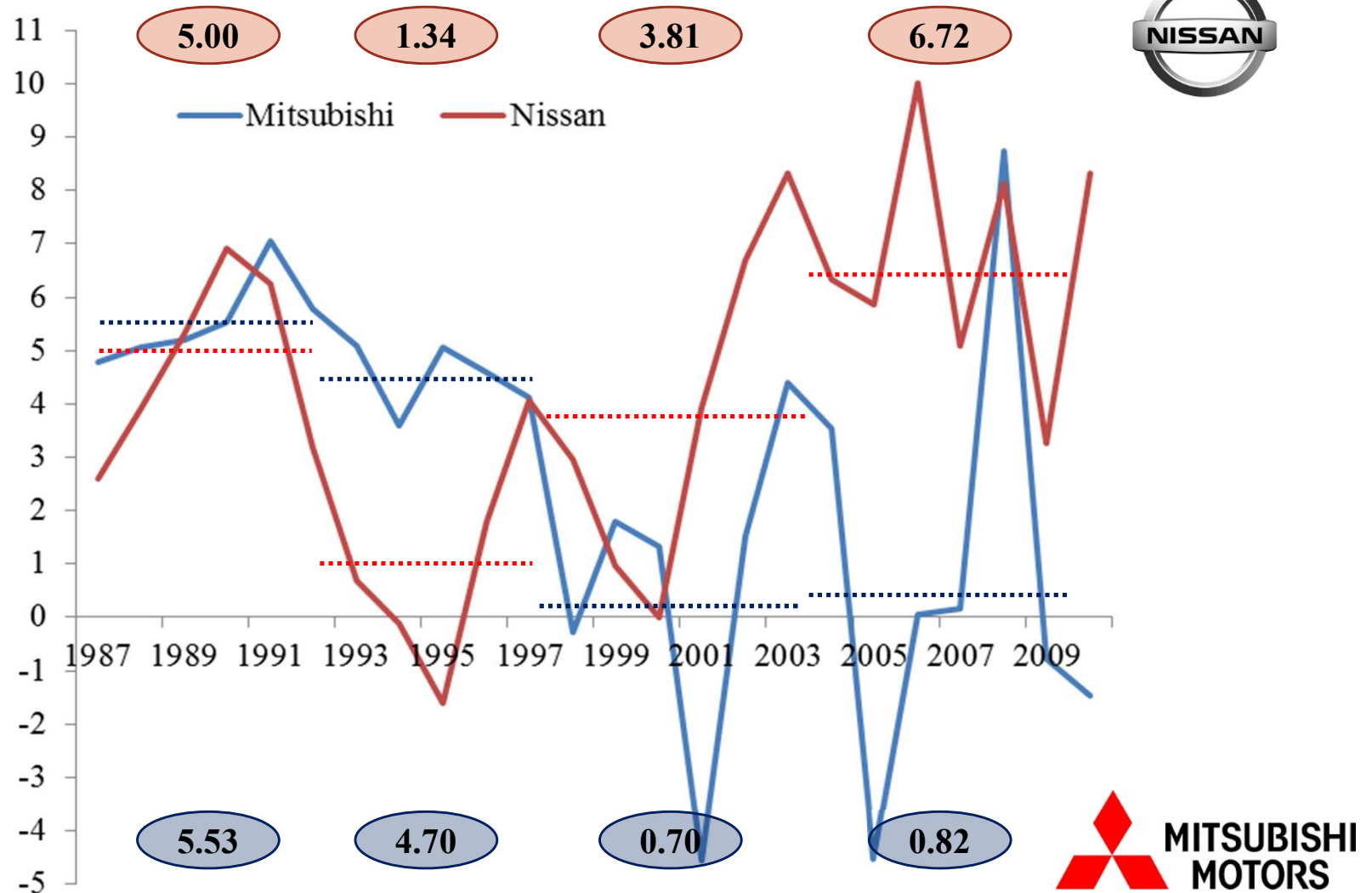
Source: Own illustration based on NEEDS.

Changes in Foreign Ownership (%)



Source: Own illustration based on NEEDS.

Return on Investment (ROI)



Source: Own illustration based on NEEDS/

Renault-Nissan vs. DaimlerChrysler-Mitsubishi



■ Overview of the '2' Acquisitions

	Renault-Nissan	DaimlerChrysler-Mitsubishi
HQs of acquirer	France	Germany-USA
Acquired stake	37%, later increased to 44%	34%
Financial strength of acquirer	Medium	Medium to high
Financial situation of target	Distressed	Distressed
Motives of acquisition	Global expansion, acquiring technologies	Global expansion, acquiring technologies
Outcome	Success	Failure, divestment

Source: Froese & Goeritz (2007).

Role of Leadership in International M&As



Organizational Change	Nissan: Ghosn (I)	Mitsubishi: Eckrodt (II)
Cost-cutting measures	<ul style="list-style-type: none"> • Reduce production capacity by closing down 5 factories • Breakup of <i>kreiretsu</i> supplier systems 	<ul style="list-style-type: none"> • Cut material costs by 15% • Reduce the number of platforms by 50% • Close down a factory • Dump inefficient suppliers • Selling assets
Changes in HRM practices	<ul style="list-style-type: none"> • Performance-based incentive • New hire at higher entry salaries • Hiring employees in alignment with change vision • Promotion based on change vision 	<ul style="list-style-type: none"> • Elimination of promotion based on seniority • Breaking with Japanese norms of lifelong employment • Appointment of new, young German executives
Approaches to implementing teams	<ul style="list-style-type: none"> • Cross-company teams (CCTs) • Cross-functional teams (CFTs) • Engagement in frequent meetings with CFTs & management 	<ul style="list-style-type: none"> • Several small CCTs, but with unclearly of responsibility • No Japanese executive was involved in top management decisions.

Source: Gill (2012).

Role of Leadership in International M&As



Leader Authenticity	Nissan: Ghosn (III)	Mitsubishi: Eckrodt (IV)
Self-awareness	<ul style="list-style-type: none"> Ghosn was aware how his actions would impact on employees. Understanding that Nissan employees would see him as an outsider 	<ul style="list-style-type: none"> Eckrodt misread yes as “I heard you” > “I agree”) He falsely assumed that Mitsubishi managers were committed to the changes he was trying to make.
Balanced-processing	<ul style="list-style-type: none"> Ghosn was friendly & open & wanted to talk to people & learn. Ghosn ensured that a wide range of voices were heard. 	<ul style="list-style-type: none"> Eckrodt failed to gather information,incl. employee passive resistance.
Transparency	<ul style="list-style-type: none"> Ghosn spoke openly about problems & results. Worth hearing dissension Communication with the press 	<ul style="list-style-type: none"> Eckrodt seldom gave interviews. Eckrodt failed to generate the trust required for change.
Ethical/moral conduct	<ul style="list-style-type: none"> Ghosn’s words & actions were consistent; role model/clear strategy/rigorous execution 	<ul style="list-style-type: none"> Plans were not consistently executed; too laid back & informal; marionetts by HQs

Source: Gill (2012).

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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