

Your Career

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

International Business & Trade
Università degli Studi di Bergamo
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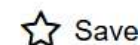
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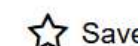
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Salary: Not Specified

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31
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Hubbard, N. (2013). Chapter 7: “*Cross-Border Mergers & Acquisitions*” (pp.97-131)

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Introduction

■ The Top 20 Countries in the Market for Cross-Border M&A, 2005–2014 (Cumulative)

Acquiring firm countries			Deal value (US\$ billion), Number of deals			Target countries			Deal value (US\$ billion), Number of deals		
Country	Value	Percent in World	Country	Number	Percent in World	Country	Value	Percent in World	Country	Number	Percent in World
World	5032.97	–	World	99549	–	World	5032.97	–	World	99549	–
USA	821.17	16.32	USA	18719	18.80	USA	1022.15	20.31	USA	15310	15.38
UK	358.85	7.13	UK	9592	9.64	UK	837.61	16.64	UK	8667	8.71
Japan	349.93	6.95	Canada	5832	5.86	Canada	333.74	6.63	Germany	5955	5.98
France	346.09	6.88	France	5238	5.26	Netherlands	289.37	5.75	Canada	5074	5.10
Canada	326.66	6.49	Germany	4976	5.00	Germany	234.15	4.65	Australia	4308	4.33
China	272.88	5.42	Japan	3537	3.55	Australia	231.93	4.61	France	4299	4.32
Germany	236.49	4.70	Australia	3058	3.07	Spain	217.31	4.32	China	3788	3.81
Switzerland	206.76	4.11	Netherlands	3027	3.04	China	162.09	3.22	Russia	3201	3.22
Netherlands	187.68	3.73	Sweden	2797	2.81	France	158.98	3.16	Spain	2820	2.83
Spain	134.92	2.68	Switzerland	2628	2.64	Italy	132.14	2.63	Sweden	2441	2.45
Hong Kong	126.27	2.51	Singapore	2244	2.25	Russia	84.95	1.69	Italy	2374	2.38
Australia	124.88	2.48	Hong Kong	2181	2.19	Brazil	83.12	1.65	Netherlands	2166	2.18
Italy	120.49	2.39	China	2140	2.15	Turkey	77.32	1.54	India	2163	2.17
UAE	89.77	1.78	Spain	1746	1.75	Hong Kong	72.98	1.45	Brazil	2032	2.04
India	89.45	1.78	Cyprus	1741	1.75	Norway	71.39	1.42	Japan	1737	1.74
Singapore	85.31	1.69	Italy	1679	1.69	Luxembourg	67.41	1.34	Hong Kong	1700	1.71
Sweden	65.94	1.31	India	1577	1.58	Sweden	60.50	1.20	Switzerland	1473	1.48
Belgium	63.60	1.26	Malaysia	1350	1.36	Singapore	59.44	1.18	Norway	1424	1.43
Brazil	62.39	1.24	Russia	1345	1.35	India	58.51	1.16	Singapore	1396	1.40
Russia	61.17	1.22	Norway	1219	1.22	Denmark	57.12	1.13	Denmark	1297	1.30

Source: Xie et al. (2017: 157).

■ Determinants of Cross-Border Acquisitions?

❖ Firm-Specific Determinants

- Own financial resources (+) (Buckley et al., 2016a).
- Experiential market knowledge (+) (Buckley et al., 2016b).
- Sourced technological knowledge (+) (Buckley et al., 2016b).
- Business group (+) (Buckley et al., 2016b).
- CEO international experience (+) (Elia et al., 2021).

❖ Host Country-Specific Determinants

- Cultural distance (-) (Buckley et al., 2017; Malhotra et al., 2011).
- Market size (+) (Buckley et al., 2017; Deng & Yang, 2015).
- English-speaking host country (+) (Buckley et al., 2017).
- Corruption(-) (Malhotra et al., 2010).
- Financial market development (+) (Tunyi & Ntim, 2016).

Introduction

■ Key Questions

- ❖ **WHAT** do MNCs **wish** in cross-border acquisitions?
- ❖ **WHAT** determines **acquisition success & failure**?
- ❖ **WHAT TYPES** of **due diligence** need to be conducted prior to acquisition?
- ❖ **WHAT “soft” & “hard” activities** should be performed in cross-border M&As?

Survey: Reasons for M&As



■ Why?

❖ Hubbard (2013)

- Speed.
- Opportunity of an excellent target.
- Development of a significantly sized presence in the market.
- Acquisitions of a specific resource.
- Transformational acquisitions (Globalizers act quickly in securing the target before the competition. *e.g.*, **Cadbury Schweppes' acquisition of Adams**).

❖ KPMG Survey (2012)

- Geographic growth.
- Expand into growing sectors.
- Enter new markets.
- Increase market share.
- Cost synergies.
- Diversity or diversification.
- New brand or service.
- Investment opportunities.



■ '5' Reasons for Acquisitions (1/2)

I. Financial Rationale/Strategic Differentiation

- A strategic acquisition: The acquisition is used to **strategically change/reshape the organization** either through **diversification**, **differentiation**, or **defensive acquiring**.
- **Japanese MNCs** are well-known for strategic differentiation in emerging markets.
- The degree of integration necessary for strategic acquisitions is a controversial point, namely **limited levels of integration & more control**.

II. Geographic Market Entry

- Market entry occurs when acquirers **enter a new market** in which **they don't have a significant presence**.
- If acquirers enter the new market in **an unrelated industry**, it is also an asset potential acquisition.



■ '5' Reasons for Acquisitions (2/2)

III. Market Penetration

- Market entry (*e.g.*, **Ford, Sony & BP**) is **market penetration**.
- In full integrations all functions are merged; in partial integrations combined functions are IT, HR, logistics & customer support etc.
- **Streamline** the operations **reducing the overlap** in some functions.

IV. Vertical Integration

- Vertical integration acquisitions require some degree of integration in order to **achieve the collaborative effect**.

V. Asset Potential

- Venture capital firms & those enterprises acting like venture capitalists buy assets because they are **undervalued or represent an opportunity to increase value** usually for **resale within 5-7 years**.
- In most venture capital purchase, the target is a stand-alone entity.

Reasons for M&As & Degree of Integration



■ Mergers & Acquisitions

❖ Potential Limitations/Risks/Concerns?

- I. The **takeover premium** that is paid for an acquisition typically is **very high** (*i.e.*, 2 times out of 3, the stock price of the acquiring company falls once the deal is made public.).
- II. Often, **competing firms** can **imitate any advantages** realized or **copy synergies** that result from the M&A.
- III. ‘**Managers’ credibility & ego**’ (→**empire building, legacy, & reputation**)
- IV. There can be **many cultural issues** that may doom the intended benefits from M&A endeavors (*e.g.*, The merger between **SmithKline (UK)** & the **Beecham Group (US)** is challenging due to **differences in both national & business cultures**).

Factors for Acquisition Success & Failure



■ “Hard” Activities

- ❖ Pre-Acquisition Planning
- ❖ Holistic Due Diligence
- ❖ Robust Synergy Evaluation

■ “Soft” Activities

- ❖ Communicate to Stakeholders
- ❖ Top-Team Selection

Factors for Acquisition Success & Failure



■ “Hard” Activities

❖ Pre-Acquisition Planning

- ... is considered as a **key factor for acquisition success**.
- **Poor acquisition planning** leads to **poor stakeholder communication** as it limits the information available for discussion.
- With **detailed/defined plans**, one can **effectively assess related resources** during **due diligence**.
- Understanding the **vision & plan** going forward is fundamental to **employee retention & gaining “acceptance”**, & in some cases, **enthusiasm** from target employees.
- While a **robust strategy** represents the basis of a successful acquisition, **planning & synergy evaluation** are a key to **success**.

Factors for Acquisition Success & Failure



■ “Hard” Activities

❖ Questions to be Addressed in Pre-Acquisition Planning

- **Why** are you **buying the target**? **What** are the **key competences** you are trying to **protect & utilize**?
- **How far** are you going to **integrate the target** into your existing operation? **How far** are you going to **implement any changes**?
- Are you planning on **retaining key target managers**?
- If there is **employee overlap**, how are you going to decide **who stays & who goes**?
- Are you going to **integrate systems**? **Which employees** will be **affected**? (**Survivor syndrome???**)
- Are there **employees** who are **key to the strategic change process**?



■ “Hard” Activities

❖ Holistic Due Diligence

- Holistic due diligence is a way to understand **what you acquire**.
- It is important to **know the target’s market**.
- Having a deep understanding of the **local market, its culture, & idiosyncrasies** is a major theme when conducting your research.
- Acquiring the knowledge of the local market requires **a presence on site for a considerable period of time**.
- One survey participant in Hubbard’s (2013) study argues:
“It took 3 years of relationship building & understanding the cultural differences & the market for us to get a deal done & for them to appreciate us as a partner. My approach is to go in & see if there is a commercial or strategic relationship for us to have rather than go straight into having an acquisition talk”.

Factors for Acquisition Success & Failure



■ “Hard” Activities

❖ Robust Synergy Evaluation

- Synergies can be classified in ‘2’ ways: “Hard” & “soft” synergies
- **Operational synergies** are cost reduction based & achieved by removing duplication in terms of people & systems.
- Combining IT systems, back-office functions, & overlapping manufacturing sites & developments (*e.g.*, marketing) **all yield tangible results** that are easily quantifiable.
- **Soft synergies** are **less easily measured** & include intra-firm collaboration, innovation, & resource sharing.
- Soft synergies are even **harder** to achieve in cases of low degrees of integration with the added complication of differences in **culture, geography & distance**.

Factors for Acquisition Success & Failure



■ “Soft” Activities

❖ Communicate to Stakeholders

- Communication can be defined as *“not only formal verbal & written communication but also informal communication, actions, gestures, & feedback; even no communication is in itself, communication”*
(Hubbard, 1999: 94)

The Case of Japan Steel’s Acquisition of US Steel

https://www.youtube.com/watch?v=m_2QrgeD3r4

rest of the acquiring organization is important (Ranft & Lord, 2002).

- **E-mail** & other impersonal communication techniques are **less effective & more open to misinterpretation** than face-to-face interactions.
- The key to **effective communication** is a **consistent & believable message to all stakeholders**.

Factors for Acquisition Success & Failure



■ “Soft” Activities

❖ Top-Team Selection

- There are **countless stories of failed acquisitions** where **employees with key knowledge left the firm**.
- For example, **2/3 of Chrysler senior executives left** in the following its “merger” with **Daimler Benz** & created a void in emerging market expertise (Badrtalei & Bates, 2007).
- (1) Creating a compelling & exciting **joint vision** for the combined organization, (2) being **fair with all employees**, & (3) encouraging & motivating employees to **get emotionally involved** with the new organization were all seen as critical to success.
- One is to make sure **senior target employees have a clear understanding of expected behaviors & systems** within the newly enlarged company.

Factors for Acquisition Success & Failure



■ 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 !

Factors for Acquisition Success & Failure



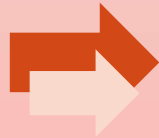
■ Why Acquisitions Often Fail?

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).

Factors for Acquisition Success & Failure



■ Short Cases

Cadbury Schweppes & Adams

Lonrho & Rollex

Lafarge in India

Nomura



■ Cadbury Schweppes & Adams

- ❖ Cadbury Schweppes' **transformational acquisition** of Adams.
 - CS (Leader in the confectionary & soft drinks market).
 - Adams (A division of Warner-Lambert that merged with Pfizer).
- ❖ **Why** was Adams (“**orphan syndrome**”) acquired by CS?
 - **Rapid consolidation** of related businesses = Need for CS to acquire Adams / No need for Pfizer to preserve Adams = **global focusing**.
 - **No geographical overlaps** = CS: North America & A: South America.
 - **Functional synergies** = CS: aggressive marketing & A: R&D capacity.
- ❖ **Serendipity**: Unexpected & lucky discoveries / the ability to capitalize on good luck in making fortunate discoveries.



■ Lonrho & Rollex

❖ Benefits & Risks of Vertical Integration

Benefits

- ☐ A secure source of **raw materials** or **distribution channels**.
- ☐ **Protection** of & **control** over **valuable assets**.
- ☐ **Proprietary access** to **new technologies** developed by the unit.
- ☐ **Simplified procurement & administrative procedures**.
- ☐ **Positive differentiation**.
- ☐ **Lower costs of transaction**.

Risks

- ☐ **Costs & expenses** associated with **increased overhead & capital expenditures**.
- ☐ **Loss of flexibility** resulting from **large investments**.
- ☐ **Additional administrative costs** associated with **managing a more complex set of activities**.
- ☐ **Loss of focus**.



■ Lafarge in India

❖ Lafarge

- French industrial company specializing in **cement**, construction, aggregates & concrete.
- The **world's largest** cement manufacturer.
- **Rapid expansion** through organic growth, acquisitions, & JVs.

❖ How did Lafarge build their operation in India?

- **2 acquisitions** of **cement operations** from **Tata Industries** in **1999** & the **Raymond Group** in **2001**, respectively.
- These operations were **combined, integrated, & upgraded**.
- **Product capacity doubling**.

❖ Why were the 2 acquisitions successful?

- “**Orphan syndrome**” (*i.e.*, efficient use of local human resources)
- “**Being global but acting local**” (*i.e.*, understanding the market uniqueness = retail > industrial sales / learning from leading companies)



■ Nomura

- ❖ Acquisition of **Lehman's assets in Europe & Asia**.
- ❖ **Securities brokerage & investment banking**.
- ❖ Did Nomura have **what it takes** to make this acquisition **success**?
- ❖ 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 so **difficult** in the post M&A integration process?

Reading Assignments



■ WEEK 6-1 (24.03.2025 | Monday)

- ❖ **Gill, C.** (2012). “The Role of Leadership in Successful International Mergers & Acquisitions: Why Renault-Nissan Succeeded & DaimlerChrysler-Mitsubishi Failed”, *Human Resource Management*, 51(3), 433-456.
- ❖ **Dikova, D., Panibratov, A., & Veselova, A.** (2019). “Investment Motives, Ownership Advantages and Institutional Distance: An Examination of Russian Cross-Border Acquisitions”, *International Business Review*, 28(4), 625-637.
- ❖ **Nayak** (2019). “*Bharti Airtel Acquires Resources & Companies*”.
- ❖ Choose **one unsuccessful cross-border M&A case**. Be well-prepared to discuss **the logic behind its failure** in **an organized & structured manner** within 2 minutes at a maximum.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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