Rethinking Mergers & Acquisitions?

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There has been a sharp rise of market consolidations on a global scale. Total deal value increased steadily from $1.4 trillion in 2004 to 2.4 trillion in 2006. And in 2007, mergers and acquisitions (M&A) activity peaked at a value of $5.6 trillion. Despite all the frenzy, studies have shown that about 50% of mergers fail. Shareholders lose money, which defeats the intended purpose of M&As. Unfortunately too, the negative repercussions of failed deals may spill over to the wider community. Perhaps corporates should think twice before signing the next M&A deal.

Even as merger meltdowns are expected almost half the time, it is interesting that M&As in developing countries seem to be the exceptions. Asian corporates experience higher success rates than their counterparts from developed nations. Certainly, with economic conditions spurring the growth of Asian markets, it is no surprise that Asia-Pacific (ex-Japan and Australia) has emerged as a strong force in mergers and acquisitions (M&A) activity.

M&As are often used as part of a company's globalization strategy, which includes both intra-regional and international deals. In fact, the last half decade has seen a remarkable surge in the popularity of M&As. In 2004 just, the value of completed Asia-Pacific (ex-Japan and Australia) M&A deals was an impressive US$65 billion, but the industry nearly doubled to reach a value of $122 billion in 2006.

Data source: Thomson One Banker/Zephyr Report, MergerStat 2009; Cover photograph: Cuba Gallery

Photo: PRNewsFoto/Waggener Edstrom/AP Images

Staying competitive…

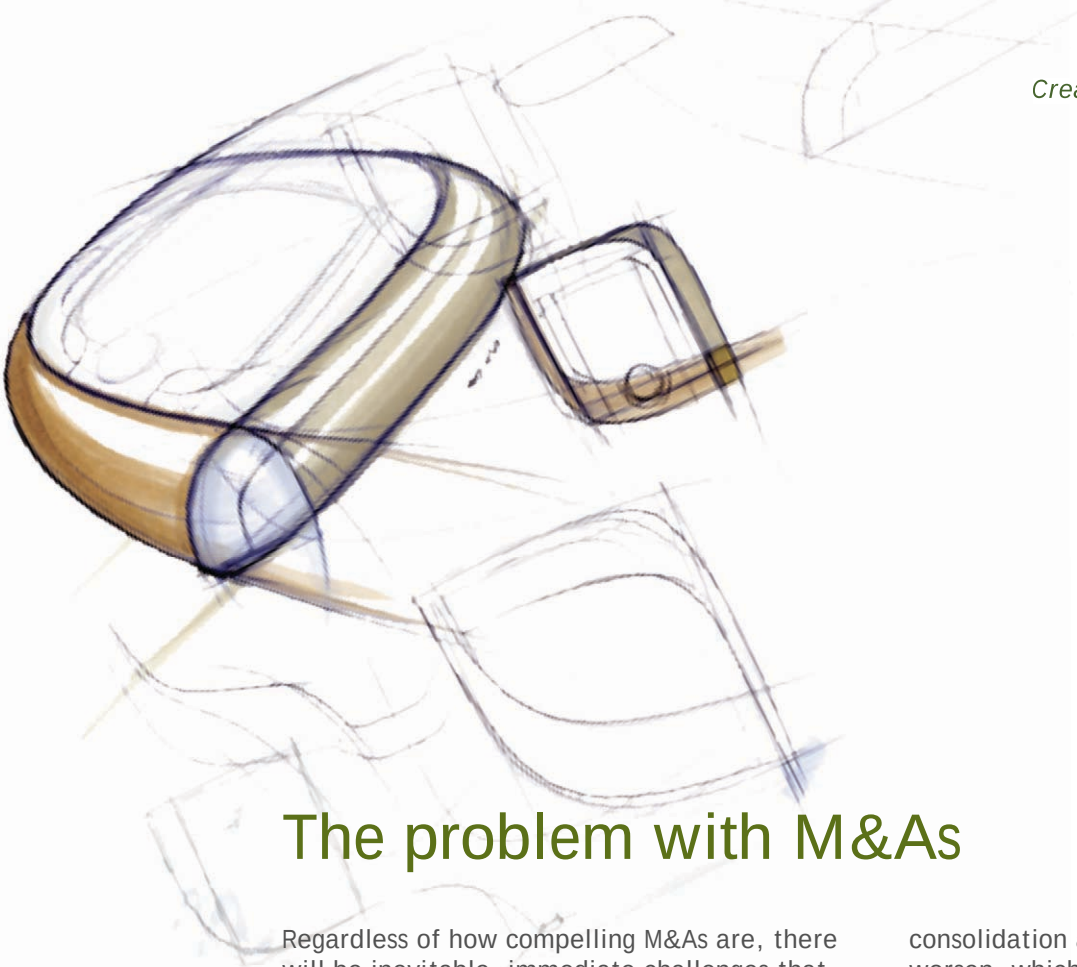
"Competition for industry foresight is essentially competition to establish one's company as the intellectual leader... over the direction of [the industry's] transformation." Hamel & Prahalad (1994)

There are various reasons that compel corporates the world over to engage in M&A activity, and all of these reasons is best summed up by the goal of gaining competitive edge. Nevertheless, the biggest difference behind M&As of Western companies and Asian companies lay in the scope of their intents.

On one hand, most Western companies hope to achieve size and efficiency from M&As. But on the other, companies from emerging Asian economies have an interest in expanding their footprint within the global marketplace. As a result, M&As are carried out to leverage on each other's competitive advantage, knowledge base, reputation and experience to manage the challenges that lie ahead.

Because resources and market powers are consolidated, M&As are inevitably anti-competitive in nature. Many prominent corporations have engaged in buyouts, mergers and buyer/seller consolidations that reward them with disproportionate amounts of power over the industry. For example, it is no secret that Microsoft gained significant control over the software market through a series of acquisitions; it also managed to eliminate substantial competition as a result.

The main proponents of mergers and acquisitions usually have an agenda to defend their lead position in the market - which compels them to acquire companies with products or intellectual property that have not been commercialized. It could also be that these companies lack the production resources and experiences to commercialize their products, therefore allowing larger corporations to purchase them at unprecedented prices.



The problem with M&As

Regardless of how compelling M&As are, there will be inevitable, immediate challenges that surface post-merger. Human resources and processes break down, and information flow is disrupted; the negative repercussions are even felt by customers.

The long term impacts of M&As, too, are often blindsided by corporate leaders - especially when these consequences extend to the whole industry and the community at large.

One of the more prevalent problems is the impediment of product development and innovation within the industry. Evidence from research has suggested that firms which pursue consolidation plans have failed to attain market leadership through product innovation, neither have they managed to increase their resources nor market opportunities. Industries which commonly observe such trends are from the manufacturing and service industries. E.g. automobile, airline, banking and finance, information and communication technology industries.

The second problem is that the size and scale of supply chains, and their supporting communities are significantly reduced. These supply chains and communities are what support the individual enterprises within the supply chain.

As the number of employers shrink (due to consolidation activities), unemployment will worsen, which necessarily weakens the economy. No doubt, wealth is increased in specific parts of the economy, yet, on a macro scale, the high unemployment rate implies that less wealth is being generated in the economy.

The inefficiencies and monopoly power generated from consolidation activities have, more recently, prompted Government offices to review proposed mergers more rigorously. This is especially true in the developed countries.

All things considered, consolidation activities are, for sure, not without their benefits. But one must bear in mind the aforementioned complications. Before plunging into the next M&A deal, consider the following questions: How can we best preserve the benefits of competition? Are we able to manage the immediate challenges that surface post-merger? Are there other collaborative structures available to us? ■

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