Mergers and Acquisitions: an overview of pre and post merger activities

An abstract

Our study tries to look into the burning issue of mergers and acquisitions. Merger and acquisition literature suggests that managers will have various motives for mergers; in our study we summarize the motives for mergers into four broad categories, namely economic motives, synergy motives, strategic motives and managerial motives. We try to explore the post merger activities of a firm by looking into the potential cross-effects of asset divestiture on revenue enhancing capabilities and of resource redeployment on cost savings. Finally we investigate the possible lingering direct effects between asset divestiture and resource redeployment on acquisition performance.
Internationally, the amount and volume of mergers and acquisitions is reaching record braking levels, where the main role is taken up by cross-border deals, as businesses gain from low-cost funding to chase their M&A strategies. This previous statement is backed up by a survey conducted for the behalf of Accenture/Economist Intelligence Unit 2006 in certain wealthy nations in Europe, along with US companies and companies headquartered in Asia.

The fact is that many businesses recognize the uncompromising demand to venture overseas, or within their region, so as to seek out growth and profits. In the strategy literature acquisitions are explained by two main classes of theories: first is the “value-maximizing theories” and secondly is the “managerial theories” (Seth 1990a). Merger and acquisition literature suggests that managers will have various motives for mergers (Trautwein, 1990). The form of these motives can be from purely financial to personal. In addition there exists the traditional cost efficiency theory based on the notion of economies of scale and scope, as well as the resource-based view based on enhanced utilization of core competences and resources (Prahalad and Hamel 1990). Our aim is to examine both of these two main classes of theories by proposing a model, looking into the pre-acquisition/merger and post-acquisition performance of the target and acquiring firms (Singh and Montgomery 1987) and by investigating the post-acquisitions actions in terms of asset divestiture and resource redeployment and their impact on the long-term performance of acquisitions (Capron 1999). Our work follows Newbert’s (2007) and Armstrong & Shimizu (2007) suggestions. It holds that some resources do contribute to a firm’s competitive
advantage and resulting in a positive performance, but also the case that other resources can have negative effects on organizational competitiveness and performance. According to RBV, managers are able to recognize these negative resources but are daunted by the task of removing them. Resources that have a positive effect on competitive advantage are usually accumulated over time and can be multifaceted, while causality can be ambiguous (Dierickx & Cool, 1989; Reed & DeFillipi, 1990; Kogut & Zander, 1995). According to Leonard-Barton (1992), when a firm changes operating environments then it needs to make a swift reformulation to its strategy and that is when previously valuable resources are hard to identify and therefore become a source of “core-rigidities”. Therefore, when competitors of the firm do not have to cope with such resources, the focal firm can be subject to a competitive disadvantage and can result in a negative performance. It is our intention to demonstrate along with the positive effects of a firm’s resources on competitiveness and performance, the negative effects that might exist from that reallocation of resources.

The first step into examining the phenomenon of mergers and acquisitions is to understand why it occurs in the first place. What is the driving force behind it? Looking into the mergers and acquisition literature, merger motives do not play a substantial role and have sparked less theoretical effort than merger consequences (Trautwein, 1990). Taking into account Neary’s (2007) work in cross-border mergers, we find that according to him, because of the vast literature that exists in the industrial organization (IO), two areas of motives are suggested, namely an efficiency motive and a strategic motive. As far as efficiency gains are concerned, they can be developed from various sources, such as managerial synergies or even the use of firm-specific assets. On the other hand mergers according to Neary (2007) can raise costs,
because different managerial and production capabilities and dissimilar corporate cultures have to be integrated. He continues by stating that empirical evidence on efficiency gains is far from conclusive. Moving on to the broader area of the strategic motive, Neary (2007) contends that taking into account Salant, Switzer and Reynolds (1983) mergers between identical firms are without profit, but for the case that merged firms produce a high proportion of pre-merger industry output.

In fact, taking into consideration the work of Allen et al (2002) that was based in Trautwein (1990) findings and assumptions, we believe that, mergers are motivated by a complex form of motives and that no single motive or method can provide a full explanation. In our effort to look into merger motives we summarize the motives for mergers into four broad categories, namely economic motives, synergy motives, strategic motives and managerial motives.

The first part of our proposed model refers to the premerger activity of the merger or the acquisition. Four different stages are observed. First of all the motives of the merger or the acquisition have to be recognized by the businesses and the reasons why that particular business desires to undergo this strategic movement. Such motives include increasing profitability, the pursuit of market power, marketing economies of scale, cost reductions and creation of barriers to entry. Secondly the potential targets to be acquired or merged with a business have to be identified. Thirdly we move on to the stage of the justification to the premerger and all of the activities that are going to follow for the actual activity of the merger or the acquisition. Finally, in this phase, is where we stumble upon the last stage of the premerger, which is its implementation.

The second part of our model is all about the post-acquisition activities that take place after a merger. The first step is the asset divestiture, because the exploitation of
economies of scale and scope is usually achieved through that stage. Secondly we have the step of the resource redeployment. Here, because of the reason that acquisitions can generate value and boost returns by redistributing resources from the acquirer to the target, and vice-versa, from the target to the acquirer we include resource redeployment as the second part of our model. Consequently we try to explore the potential cross-effects of asset divestiture on revenue enhancing capabilities and of resource redeployment on cost savings. That is where the third and fourth stage of our second part of the model lies, cost savings and revenue enhancing capabilities. Finally we investigate the possible lingering direct effects between asset divestiture and resource redeployment on acquisition performance, our final stage in our model, effects that might not have been captured by the interceding value-creating variables, cost savings and revenue enhancing capabilities. It is in that view that this multifaceted trend – mergers and acquisitions – and because of the reason that although the merger and acquisition dream exists along with several issues that need to be further addressed, that has attracted our stern attention.

Our belief is that the initial sample should consist of acquisitions that took place in the European Union between companies operating in the same or different industries. Most likely four phases are under consideration. First of all measurement scales are developed using the Lickert-Scale by reviewing relevant literature, by completing on-site interviews with CEOs from large firms, academics and consultants and by pre-testing the resulting scales with a group of academics and consultants. Secondly a single bilingual research in order to pre-test the preliminary versions of the resulting questionnaires. These pre-tests might lead to the revision of several items to improve their clarity and/or the addition of several new items identified. Thirdly on-site interviews will be conducted with CEOs or executives in charge of their acquisitions
programs, which will result in the final versions of the questionnaires. Finally the survey will be then mailed to the acquiring firms included in the sampling frame mentioned above. The surveys will be addressed to the chief executives of the business units that undertook the acquisition. The cover letter will request that the survey be completed either by the CEO or by a senior executive with overall responsibility for the acquisition case examined. Following Dillman (1978) two follow-up letters and one replacement questionnaire will be mailed after the initial one.

Finally, the most probable modeling approach that we are going to choose in order to estimate our model will be the latest available AMOS (16). Amos provides you with powerful and easy-to-use structural equation modeling (SEM) software. Structural modeling addresses structural and measurement issues frequent in survey-designed research and has been increasingly in strategic management research and we believe it is suitable for our research too. The reason for that is that a model for AMOS estimation can be divided into two sections, the first one being an inner structural model that captures the structural linear relationship between the endogenous and exogenous latent variables and secondly, an outer measurement model that captures the expression of the various constructs or latent variables in term of measures that are observable.

References:


