MERGERS AND ACQUISITIONS ON E-COMMERCE

Disha Bagga*1, Vipin Kataria2

1University Of Petroleum And Energy Studies, Dehradun, Uttarakhand, India.

ABSTRACT

Mergers and acquisitions represent the end of the continuum of options companies have in combining with each other. Representing the least intense and complex form of combination is licensing. Next come alliances and partnerships and then joint ventures. Mergers and then acquisitions conclude the combinations options. It is the mergers and acquisitions that are the combinations that have the greatest implications for size of investments, control, integration requirements, pains of separation, and people management issues. With our focus on mergers and acquisitions, it is important to distinguish them. In a merger, two companies come together and create a new entity. In an acquisition, one company buys another one and manages it consistent with the acquirer’s needs.

INTRODUCTION

The Phenomena of merger and Acquisitions (M&A) has developed over the last 30 years and it has become a highly popular form of corporate development to create diversity and growth. In 2004, there were 30,000 acquisitions completed around the world. The increasing number of M&A’s can be explained with factors such as low inflation, deregulation and a rising stock market. The increase in M&A’s is resulting in more research being conducted, but even more research is needed since there is a high failure rate of M&A’s. Managers of acquiring firm’s report that 44% of their acquisitions are not living up to the original objectives, and about 70% of all mergers and acquisitions are reported as failures.

Mergers and acquisitions are increasing being used by firms to strengthen and maintain their position in the market place. They are seen by many as a relatively fast and efficient way to expand in to new markets and incorporate new technologies. Yet their success is by no means assured. To the contrary, a majority fall short of their stated goals and objectives. While some failures can be explained by financial and market factors, a substantial number can be traced to neglected strategic e-commerce issues and activities. Numerous studies confirm the need for firms to systematically address a variety of strategic E-commerce issues and activities in their merger and acquisitions activities.

Track Record

With the importance of need for mergers and acquisitions growing, and the base of experience expanding, it may seem reasonable also to assume that success is more likely to occur than failure in these types of combinations. In fact, indeed, worse than this, mergers and acquisitions are more likely to fail than succeed. Statistics show that more than a
staggering 75% fail. Only 15% of merger and acquisitions in the US achieve their financial
objectives, as measured by share value, return on investment, and post combination
profitability. In the European arena, a 1995 study of European Management Journal Vol. 19,
No.3, pp.239-253, 2001 241 large combinations – deals valued at $500 million or more –
showed one half destroyed shareholder value, 30% had minimal impact, and only 17%
created shareholder returns.

In fact more than half of the companies involved in merger worth US $5 billion or more in
1998, underperformed in their sector. Lehman Brothers, the US investment bank found that
of 33 companies involved in mega-merger between December 1997 and August 1998, only
14 outperformed their market in the first six month following the announcement of the
combination. Of the four sectors surveyed by Lehman, financial, oil, pharmaceutical and
telecommunications, oil companies showed the weakest performance with merged entities
underperforming the sector by 17.6% Lehman’s long-term analysis of 34 companies involved
in high profile combinations over the last 15 years, showed more than 50% lagged behind
their industry peers within 18 months of the completion of the deal. Companies today need to be fast growing, efficient, profitable, flexible, adaptable, future-ready and have a dominant market position. Without these qualities, firms believe that it is virtually impossible to be competitive in today’s global economy. In some industry such as insurance or banking, firms may move into new markets. In other such as Pharmaceuticals or software technology, firms may work with smaller firms that have developed or are developing new products that they can manufacture and/or distribute more efficiently, while other firms focus on their own internal growth, leadership and development. Regardless of industry, however, it appears that it has become all but impossible in our global environment for firms to compete without growing and expanding through deals that result in mergers or acquisitions.

The deals between many of the largest and most successful global firms such as Daimler-Chrysler, Chase-JPMorgan, McKinsey-Envision, UBS-PaineWebber, Credit Sussie-DLJ,
Celltech-Medeva, SKB-Glaxo, Nations bank-Bank of America, AOL-Time Warner attest to
this belief. And the future appears to be ripe for a continuation of the trend for annual
increases in merger and acquisitions (M&A) activity: I personally see more consolidation:
more partnerships, more strategic alliances, and more acquisitions. Jac Nasser, CEO, Ford
Motor. And why not? The factors that have driven the M&A activity in the past decade are
forecast only to intensify: need for large economies of scale, deregulation, globalization,
expanding markets, risk spreading, and need for rapid response to market conditions.

Even in tough financial environment and a declining stock market in 2000, the value of
global mergers and acquisitions exceeded $3.5 billion for the first time. As a consequence of
these realities, companies have become better at doing deals. Several have trained staff who
can facilitate mergers and acquisitions quickly, efficiently and thoroughly such as Michael
Volpi at Cisco Systems. However, according to jack Profit, partner in charge of business
integration services at KPMG, many companies still have a long way to go when it comes to
effectively integrating their businesses: This might be OK for a $1 billion business taking on
a $10-$30 million acquisitions. But a 1$ billion company has to make it work. The business risk is too great for failure.

Some cite recent mergers and acquisitions as evidence for this, e.g., Conseco and Green tree Financial; Case and new Holland; HRS and CUC International and Mattel and the learning Company. Evidence beyond these specific examples suggest that they are more the norm than the exception. Thus many companies seem to be confronted with the need to do mergers and acquisitions successfully, yet the odds of doing so are relatively low. These odds, however, can be increased: some companies are quite successful in mergers and acquisitions. Yes experience helps, but it is the learning from the experience that seems to be critical.

LITERATURE REVIEW


Is there any evidence that the implementation of HRM has a significant effect on national or organizational economic performance? After all, this is the justification implicit in HRM models for valuing the human resource above all others. When the first edition of this book was written (mid-1990s) the conclusion was that we simply did not know. The following were given as possible explanations:

- **Insufficient Research** Not because of lack of effort but due to the absence of clear, agreed frameworks within which to conduct comparative research. The root cause of this was perceived as HRM’s own ambiguity. How were we look for evidence of HRM and its effects if we had no agreement on what HRM was?
- **Intangibility** If people are an intangible resource we have an insurmountable problem – by definition intangibles are unmeasurable.

Since then, progress has been made in conceptualizing the problem and measuring results. For example Huang (2000) looked at 315 firms in Taiwan and related their human resource practices to their organizational performance. Huang’s study shows a significant relationship between performance and the effectiveness of their HR functions, including planning, staffing, appraisal, compensation and training and development. Michele and Sheehan-Quinn (2001) surveyed over 200 manufacturing firms in the UK to investigate the relationship between corporate performance and the use of flexible work practices, human resource systems and industrial relations. They found the low-road practices – including short term contracts, lack of employer commitment to job security, low levels of training and unsophisticated human resource practices – were negatively correlated with corporate performance. In contrast, they established a positive correlation between good corporate performances and ‘high-road’ work practices – ‘high commitment’ organizations or ‘transformed’ workplaces. They also found that HR practices are more likely to make a contribution to competitive success when introduced as a ‘competitive’ package, or ‘bundle’ of practices.

In my point of view, as is very evident from the findings of the research and the study, the efficiency of the human resource department plays a vital role in the overall effectiveness of
any firm. Thus emphasizing on the fact that due respect needs to be paid to the human resource department and activities thereby. Burner ‘Robert F.’ (Applied Mergers and Acquisitions, 2006)

“The sobering reality is that only 20% of all mergers really succeed. Most mergers typically erode shareholders wealth….the cold, hard reality that most mergers fail to achieve any real financial returns…very high rate of merger failure…rampant merger failure…!”

This statement directly indicates that most of the mergers and the acquisitions, unfortunately, have not been a success. The above illustrations also show that the key reason behind the failure is an unplanned and inappropriate integration process.

RESEARCH METHODOLOGY

OBJECTIVE

The main objectives of the study are:

- To understand and analyze the current strategic e-commerce integration procedure being followed.
- To list out the issues those are faced during the strategic e-commerce integration process.
- To suggest a model/framework that can be followed for the successful integration of the strategic e-commerce during the M&A process.

The objective is to have an in depth study of the strategic e-commerce in the industry – both in the case of Mergers & Acquisitions and in general, after which an evaluation will be conducted. Based on the findings, a model/framework will be prepared, the main objective being – to help the strategic e-commerce integration process.

SCOPE

The study has a very wide scope. It is not only applicable to the e-commerce industry, but can also apply to any industry where the human factor is involved.

- It covers major merger and acquisitions and specifically looks into the human factor of these merger and acquisitions.
- Study and analyze the major mergers that have taken place and correlate the same to the e-commerce industry.

The study basically focuses on strategic e-commerce integration in the case of mergers and acquisitions, spread across various industries and tries and correlates the same to the e-commerce industry, so that when the same happens in the e-commerce industry (as is happening now)

MERGERS AND ACQUISITIONS

Mergers and acquisitions represent the end of the continuum of options companies have in combining with each other. Representing the least intense and complex form of combination is licensing. Next come alliances and partnerships and then joint ventures. Mergers and then acquisitions conclude the combinations options. It is the mergers and acquisitions that are the combinations that have the greatest implications for size of investments, control, integration requirements, pains of separation, and people management issues. With our focus on mergers and acquisitions, it is important to distinguish them. In a merger, two companies come
together and create a new entity. In an acquisition, one company buys another one and manages it consistent with the acquirer’s needs.

**TYPES**

Further implications for people management issues are types of mergers and acquisitions. In general there are mergers of equal which include the merger between Citicorp and Travellers forming Citigroup; and between Ciba and Sandoz forming Novartis. There are also mergers between UN equals such as between Chases. Similarly there are two major types of acquisitions: those involving acquisition and integration such as those typically made by Cisco systems; and those involving acquisition and separation such as between Unilever and Best foods. Acknowledging these types of mergers and acquisitions is critical in describing and acting upon the unique people management issues each has. For example, a merger of equals often compels the two companies to share in the staffing implications; whereas a merger of unequal results in the staffing implications being shared unequally. An acquisition that involves integration has greater staffing implications than one that involves separation. Other differences are highlighted later in this article.

**Reasons for M&A’s:**

There are numerous reasons for companies to merge or acquire. Some of the most frequent include:

- Horizontal mergers for market dominance; economies of scale.
- Growth for world class leadership and global reach
- Survival; Critical mass
- Acquisition of cash
- Move quickly and inexpensively
- Flexibility; leverage
- Talent, knowledge, and technology today

Of these, it appears that the last one is rising in its level of importance: There are two factors that will bring companies to the table. First, although unemployment is rising, engineers and scientists are still in high demand, so much so that semiconductor and optical networking outfits are doing more of what bankers call HR deals. In these acquisitions the employees are seen as more valuable than the company’s product. Some bankers are applying metrics like price-per-engineer to value these deals. (For e.g. Broadcom paid $18 million per engineer to buy chipmaker SiByte in November, abit of premium but far from a record). If a company can buy another firm cheap enough and pick up 50 or 100 networking engineers who have skills in technologies, it is not a bad idea, ‘says Mark Shafir, co-coordinator of investment banking at Thomas Weisel Partners. These deals, though, will-work only if the talent can be retained, he adds. In addition, companies that are successful and inventive in combining, not only create value, but develop core competencies in combination management itself. This in turn, can give the company an edge over others who haven’t been successful and/or have not learned from their past efforts.
Assumptions
Regardless of the reason companies have for merging or combining, there are several basics assumptions being made, either explicitly or implicitly. These include:

• M&A’s are the fastest and easiest way to grow
• M&A’s are likely to fall short of their initial goal
• M&A’s are difficult to do
• Creating synergies is a major challenge
• Molding cultures is a major challenge
• Soft and hard due diligence are necessary but not sufficient conditions
• Pre-planning can help increase chances for success

It appears that companies that have gained from the experience of previous combination efforts recognize and address these assumptions more effectively than those that haven’t. And the more firms have experiences, the more they appear to learn from each additional merger or acquisition, thus solidifying their core competency and competitive advantage.

Reason for Success
Perhaps not surprisingly some of the major reasons for success in mergers and acquisitions include:

• Leadership
• Well thought out goals and objectives
• Due diligence on hard and soft issues
• Well managed M&A team
• Successful learning from previous experience
• Planning for combination and solidification steps completed early
• Key talent retained
• Extensive and timely communication to all stakeholders

These reasons are corroborated by the findings of Watson Wyatt’s Global M&A Survey where it is reported that the key lessons for the next M&A project suggest the need to:

• Develop a more realistic time scale, including allowance for the time required to prepare for effective due diligence.
• Start the planning of integration processes sooner.
• Work to align expectations in the acquirer and acquired business
• Confront difficult decisions, including employee and human resources issues, earlier in the process
• Change managers quickly if they fail to adapt

Watson Wyatt observed a disparity between the number of respondents who felt that they had been relatively successful in their M&A experiences, and the overall success rate of deals. This indicates that there is a need for companies to be more critical of their own performance in a deal to make sure that lessons are learned for the future. Thus, while there are many reasons for success and failures in mergers and acquisitions, whether in North America, Europe, or Asia, at the core of many of them are people issues.
Reason for failure

Mergers and acquisitions fail for a variety of reasons, often several simultaneously. Typical reasons for failure include:

- Expectations are unrealistic
- Hastily constructed strategy, poor planning, unskilled execution
- Failure/inability to unify behind a single macro message
- Talent is lost or mismanaged
- Power and politics are the driving forces, rather than productive objectives
- Requires an impossible degree of synergy
- Culture clashes between the two entities go unchecked
- Transition management fails
- The underestimation of transition costs.
- Financial drain
- Defensive motivation
- Focus of executives is distracted from the core business.

Perhaps of these, culture clashes, gaps, or incompatibility and losses of key talent are cited the most frequently, although even these become intertwined with other reasons. By way of an example, many outsiders believed from the start, the culture gap made Daimler-Chrysler’s post marriage period of adjustment more difficult than that of any other merger around. Daimler-Chrysler believed two company cultures could simply be put in a blender and poured out as a new synergistic company. Cultural issues were all ignored and were seemed only to be addressed by executives when making broad statements to the media regarding the differences in the two companies. Either Daimler or Chrysler did not fully realize the implications of cultural differences or they chose to focus on the operational and business synergies hoping that culture would sort itself out. Many Daimler-Benz executives initially viewed Chrysler as a primped-up matron would regard an earnest young suitor; Chrysler marketing Chief Jim Holden recalls his first meeting of the Mercedes-Benz on top and everything else far, far below – the tension in the room was palpable. Says Holden: ‘We felt like we were marrying up, and it was clear that they thought they were marrying down.’

During the initial stages of the merger, Chrysler President Thomas Stall amp indicated that Daimler intended to adopt Chrysler’s product development methods which emphasized teamwork rather than individual-oriented work procedures. Chrysler in turn would adopt Daimler practices such as rigid adherence to timetables and their methodological approach to problem solving. However, evidence of the lack of true-sharing and cooperation was soon to emerge and could be demonstrated by Daimler executives’ refusal to use Chrysler parts in Mercedes vehicles. Daimler’s chief of Passenger Cars, Juergen Hubbert, as recently as August 2000 was quoted as saying, ‘We have a clear understanding: one company, one vision, one chairman two cultures’ (The Economist,2000). While it is true that departure of Robert Eaton (Chrysler’s former Chairman) only one Chairman (Juergen Schrempp) runs the company, Hubbert’s other assertions are in question. Although Daimler-Chrysler may be ‘one’ company in name, the fact remains that two separation headquarters were maintained;
one in Michigan and one in Germany. Business operations continued to be separate as evidenced by ‘Daimler’s decision to allow “Chrysler” more leeway in the design and production of its vehicles, which more closely emulated the practices of the “Old Chrysler”. Daimler and Chrysler each had their own agenda focusing on different aspects of the automobile market, making one vision difficult to see. Finally with the acknowledged existence of two cultures, how could Daimler Chrysler truly become one company with one vision?

By way of another example, loss of key talent is another significant reason given for a failed merger or acquisition. Consistent with NationsBank’s (aka, Bank of America) strategy of acquisition, CEO Hugh McColl paid a premium price of $1.2 billion for Montgomery Securities in October 1997. Subsequently, most of the best investment bankers walked out after a series of rows with Montgomery’s management, and culture clashes with the commercial bankers at headquarters. They are now ensconced in the thriving firm of Thomas Weisal, run by Montgomery’s eponymous former boss. Though Bank of America spent a further fortune trying to revive the investment bank. Montgomery is no longer the serious force it was once in Silicon Valley.

CONCLUSION

There are numerous conclusions that can be made about M&A activity, both at the company level and at the strategic E-commerce level.

At the company level

- It is important that business and integration strategies be clear.
- When the deal is concluded, there must be a clear vision of what the new combination will look like:
  - How will be structured and run?
  - Will it be stand-alone or connected?
- It is important that such decisions be made as early as possible and avoids ambiguity in decision making guidance.
- It is critical to have a clear plan on whether to merge acquired companies or leave them alone.
- It is important that performance expectations be reasonable and takes into account market conditions, capital investment requirement, etc.
- The seller picture is too often the starting point for ongoing operations (e.g. artificially inflated sales, lagging capital investment) ---but is not realistic as a performance goal.
- Inflated performance expectations can lead executives to adopt short-term focus and delay making investments in the business.
- Financial expectations must be made clear, along with expectations with respect to others things.
- Discovery is a broader concept than legal ‘due diligence’ covering internal and external analysis, of all key functions and culture (soft and hard diligence).
- Thinking through the membership of due diligence teams and the responsibilities of key participants is critical.
It is important to also make sure that areas such as operations, strategic E-commerce, R&D are represented on the teams --- participation will depend upon key value drivers of the deal.

This has implications for capital expenditure, new product development, management retention, etc.

For acquisitions or mergers in new markets, it is essential to understand market dynamics and customers.

**At the strategic E-commerce level**

- Companies should put their best strategy in charge of implementing M&A deals.
- More emphasis needs to be placed on early planning of the integration process.
- Difficult decisions should be dealt with quickly.
- The time taken to complete the integration of deal should not be underestimated.
- Acquired company employees often identify cultural elements (e.g. flexibility in decision-making) as integral to the company’s success.
- It is important to be sensitive to cultural differences.
- Acquired companies often view their culture as faster moving than that of their new, larger parent.
- It is possible that each side will perceive its culture as ‘better’ and does not want to give it up.
- Unmanaged cultural differences will lead to miscommunications and misunderstandings.
- It is also important to remember that each separate integration activity changes the acquired company in same way. It is important to recognize and preserve the important elements of the acquired company’s culture.
- In strategic e-commerce still need to prove their worth in order to get a more central role in the M & A process.

Companies with M&A as part of their future strategy should review how they have managed M&A deals in the past and learn from these experiences when embarking on future deals. This review should focus on:

- How to deal with inadequate information during due diligence
- Employee communication
- Identifying and dealing with integration bottlenecks

M&A management can become a core competency for a strategic department.

Overall with likelihood of continued merger and acquisition activity around the world for the next several years, the future seems bright for a significant contribution to be made by the strategic department and its professionals in partnership with line managers and the employees and their representatives.

**The Ten Lessons of Integration**

- Integrate fast. Realize synergies and efficiencies sooner rather than later.
- Dedicate the necessary resources.
- Make tough decisions about organizations and people quickly.
- Restructure and re-recruit top talent.
- Set clear, short-term objectives; celebrate success as you achieve them.
- Communicate strategically; be open and forthright.
• Allow the acquired company to conduct business. After all, that’s why you acquired it.
• Manage the culture integration carefully.
• Focus on each event means to individuals.
• Keep your sense of humor.

REFERENCES