Case study on klm and air france mergers, acquisitions, and takeovers paper

Business, Company

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Introduction

The size of the market has something to do with every business involved with that market. The European Civil Aviation Industry, for example, is the second largest civil aviation market in the world, next to the United States. Among the biggest players in the European Civil Aviation Industry were Air France and KLM Royal Dutch Airlines. The former occupies about 8 percent while the latter occupies about 4 percent of the entire European Civil Aviation market. In 2003, these two big players officially announced their plans to merge, which would theoretically make their combined market share somewhere around 12 percent. Unfortunately, finalizing a merger would take more than that and so Air France and KLM had to wait until 2004 to clear all issues regarding the merger. The merger was intended to make the two company’s business venture more successful, which focused on decreasing costs and increasing revenues.

Main Problems

After the merger, some analysts doubted the long term success of the venture because of the presence of cultural and perceptual barriers. The French and the Dutch workers appear to be unable to work together. Some analysts say that “ the French corporate culture was more prone towards authoritarianism and corporates a very strong hierarchy”. The French people think that their Dutch counterparts are so rigid when it comes to implementing the terms and conditions of every negotiation while the Dutch on the other hand think that their French counterparts are purely lazy and bold. This could be a serious problem especially when more and more analysts conclude that the French and the Dutch simply cannot work together. Aside from cultural and perceptual barriers, there also appears to be conflicts in organizational structure, and in management style and mentality between the two nationalities.

Sub-Problems

It appeared that the merger did not go off as expected. The first few problems that the two European Civil Aviation players encountered were: first, the de-indexing of the KLM Royal Dutch Airlines from the local and international stock exchanges—they had to do this before they can be classified as a single for-profit entity which can only be done by clearing out or practically buying majority of the stocks of one company; secondly, they were waiting for the approval of the European Commission; and lastly, for the approval of and the processing by the United States Department of Justice. These were the initial problems.

Another problem was the tainted history of the European Civil Aviation Industry. The entire industry used to be owned and supported by national governments. Due to excessive government interference on the airline operations, the industry players experienced great challenges such as the various complex air traffic rules and bilateral agreements between European nations regarding air traffic movement. This destabilized the industry and many players were even forced into bankruptcy. This situation continued until the rehabilitation and remodeling of the industry started in 1993, via the process of privatizing the airline companies. The liberalization of the entire industry took longer than expected. The process was slow and before they could recover from the past damages, another wave of challenges arrived. Following the terrorist attacks in U. S. soil in September 11, 2001, intra-European traffic declined by as much as 11. 6 percent. Some European airline companies suffered from over 30 percent loss in operating revenues. Just two years later, the second Gulf War erupted, cutting the air traffic on Middle-east routes by 50 percent. And in that same year, at a time when the entire industry was still brittle, the SARS epidemic broke out, costing the entire industry an operation loss of 870 million USD within the span of just four months. These may be problems of the past but the fact is the industry is still recovering from its losses as a result of these turns of events which can therefore still be considered as problems.

Solutions to all the Problems

The sub-problem pertaining to the bitter and rocky history of the European Civil Aviation industry can only be solved by liberalizing the entire industry which can be effectively done by privatizing the civil airline companies currently owned by the government.

The sub-problem pertaining to the initial issues that the Air France-KLM faced when they were still planning the merger was solved by having AF spend some 800 million USD to acquire KLM assets so that the European and U. S. authorities would not have any reason to reject their motion to merge.

With regards to the main problem which had something to do with cultural diversity, it can be easily solved by employing an intercultural consultant who would most likely advise that the two groups should focus more on their goals and objectives, which are so far the only things that are common among them, rather than on their cultural and perceptual differences. By doing so, they would also be able to address their organizational structure, management style and mentality problems.

Conclusion

The Air France-KLM merger was a logical solution to think at a time when most of the things that have happened to the European Civil Aviation industry are negative ones. By resorting to a merger, the resulting company would be able to withstand any future challenges more effectively. Unfortunately, problems such as cultural and perceptual barriers cannot really be prevented when two international airline companies such as AF and KLM combine. Fortunately, the problems related to this were solved after they hired an intercultural management who advised that the two groups should focus more on their goals and objectives, which are so far the only things that are common among them, rather than on their cultural and perceptual differences.

Bibliography

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