

# [Informative essay on international business and mergers and acquisitions](https://assignbuster.com/informative-essay-on-international-business-and-mergers-and-acquisitions/)

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## Introduction

Many activities of mergers and acquisitions involve companies that are relatively small- those that are inexistent on the mainstream business radar (James, 2007). There is a particular theory among executives that expansion is the best way to approachglobalization. The idea has been shared for more than 100 years as illustrated by Karl Marx’s perception a hundred years ago that a single capitalist will always kill many others. This meant that several capitalists that are constantly dwindling will in the end monopolize everything. The situation in global mega-mergers, then, is a do-or-die one where the business entity desiring to survive, has to be among the biggest players in the world. There are a number of benefits that are associated with mega-mergers but limitations exist as well (Hill, 2010).

## Benefits of global mega-mergers

Strategic benefits come with a combination of two organizations that are highly complementary. When the companies combine, the fixed costs get to be reduced since the duplicate departments and operations get to be removed. Profit margins also increase resulting from the lowered costs of the organization relative to a similar revenue stream. A number of efficiencies also get to be improved after the mega-merge for instance when the merge leads to an increase in the scope of marketing (Graham et al, 1997).

Another strategic benefit associated with mega-mergers is the increase in revenue or market share that comes with the merge (Gaughan, 1991). The two companies combining here are both international companies that trade in the international market hence each company’s competitive power is high. The eventual entity that will be formed from the two combining companies will absorb this competing power and increase the market power of the resulting organization.

An example of these strategic benefits in a mega-merger is the 2001 merging of Hewlett-Packard and the Compaq companies (James, 2007). Initially HP went through the usual challenges of a merge including internal turmoil that resulted from the laying off of a considerable number of former Compaq workers. The stocks of the Company went down and in the company’s efforts to market as well as differentiate the two PC’s brands; Dell took advantage and absorbed the market share. However, four years later the two organizations consolidated well and HP increased its market power, the cost structure became improved and the company went ahead to become the largest vendor of PC in the world (James, 2007).

## Limitations of global mega-mergers

Global mega-mergers require a considerable amount of time and effort before the two organizations can successfully consolidate and integrate the operational functions smoothly. This is probably the biggest limitation of a global mega-merger since people issues will have to be addressed and coming to terms with the new company’s organizational details will not be immediate. Additionally, an extremely complicated merger is less likely to survive the integration process (Straub, 2007).

Sometimes the expansion of the company is not a corporate desire but rather it is influenced by the market trend and the herd behavior (Ghadar and Ghemawat, 2000). When other companies in a particular industry choose to follow a particular path, the other companies are inclined to follow suit in order for them to signal that they are ‘ with it’ or just to hide in the herd and not stand out as the odd one out (Ghadar and Ghemawat, 2000). An example is a manager of a European bank who sees a majority of its larger competitors choosing to go pan-European (Ghadar and Ghemawat, 2000). This manager would be inclined to follow suit to avoid being the odd one out although the manager is aware that there is a tendency of size increasing complexity instead of savings. This pack mentality is further reinforced by incentive systems in the industry that base the performance of a CEO on the comparison between the company’s performance and that of its competitors (Ghadar and Ghemawat, 2000).

Global mega mergers cause the company to overlook other equally beneficial alternative approaches to globalization. The fact that many companies share a common assumption that mergers are the best way to deal with globalization blinds the companies to other better options. The only occasion that a merger can be considered appropriate and necessary is when it is recommended after a detailed assessment of the market conditions and the strategic options of the company (Cartwright and Schoenberg, 2006).

Many executives believe the global economy to be an economy that favors the winner alone although no empirical evidence has been found yet to validate this assumption (Cartwright and Schoenberg, 2006). Resulting from this assumption, executives believe that the larger the cross-border deal they engage in, the stronger the company becomes globally. This limited view makes them forget that there are other alternative ways that can be used to approach globalization rather than continuous expansion.

## Conclusion

The idea that global mega-mergers are the right approach to globalization is beneficial if it is done for the right reasons and after a comprehensive assessment of the appropriateness and the risk factors. The strategic benefits that come with the merging elevate the company to new heights in the market. Successful consolidation results in increased market power as well as revenues. The problem sets in when the M&A activities are done from influence, the herd behavior or a misguided notion of the approach to globalization. This usually leads to a complicated merger whose probability of surviving the integration or consolidation process is very low.

Essay question 2

## Introduction

Business leaders engaging in a merger or acquisition get to be confronted with diverse challenges especially when the activity is taking place within a complex cross-border event. The global mega-merger is one such type of merger that poses numerous challenges both prior to and after the merging activity. This can be attributed partly to the large size of both organizations since they are more diversified. In addition, the processes that will be followed before and after the merger is completed will be complex due to the size of both organizations. A sound strategy as well as a deep understanding of the issues relating to the operations, tax, andcultureof both organizations is very necessary if the planning and initiating of the M&A deal in the pre-merger phase is to be successful. The negotiation and valuation skills also have to be comprehensive in order for the deal to be closed favorably. The challenges tend to magnify after the deal is closed. The post-merger integration phase is characterized by the strategic buyers unlocking the announced value and integration of a number of functions, cultures and processes. The challenges that crop up prior to and after the deal is closed create a risk offailurethat must be reduced if not eliminated.

## Measures in pre-merger phase

In the pre-merger phase, priority should be on selecting the appropriate acquisition target. In order to reduce the risks of failure, the pre-merger phase has to be approached through a comprehensive due diligence analysis. The comprehensive due diligence will enable the two firms to have clear picture of what they are getting into or what they are becoming a part of. The target profile will therefore be created in the due diligence analysis. The appropriate attorneys, tax advisors as well as auditors have to be consulted before the complete target profile is formed (Straub, 2007). A target profile that follows this thorough analysis is less likely to result to an inappropriate target choice. The eventual target profile created enables the company to realize which the best possible deal is and which is not. This is then followed by sound negotiating skills. After the experts value the target, other professional with the necessary negotiation skills should be introduced to go through with the negotiation process. This detailed process starting from the due diligence analysis to the negotiation process will ensure every possible aspect has been observed and the risk of the merger failing because there was an element that was overlooked gets to be reduced.

When the full value potential of a merger is not identified and unlocked the risk of the merger failing stays high (Auerback, 1988). Value can only be created in a merger when the synergies’ value is more than the paid acquisition premium. In order to identify and unlock the full value of the merger, the revenue and asset efficiency have to be enhanced, the OPEX and cost of capital have to be reduced, and the integration costs have to be monitored tightly (Straub, 2007). Areas with the highest value potential can be identified when industry-specific benchmarks and synergy opportunity checklists are utilized. A number of benefits spots need to be sought aiming to unlock more sources of value from the merger in addition to the pure consolidation benefits and reconfiguration benefits.

## Measures in the post-merger phase

In the post-merger integration, a long term strategy should be planned to be applied starting the first day. It is also important to define the target state of the new entity. The integration master plan formulated will determine the clarification of the new business as well as that of the operating model. The merger needs sustainable employee support which can be ensured through application of meaningfulcommunicationtogether with a cultural change program (Straub, 2007). Cross-border mergers are large and complex and therefore require a program office that will coordinate and monitor the process of integration across the different countries, functions, as well as business units.

The post-merger phase also requires an M&A lifecycle management to be carried out consistently so that business areas that are not fitting the corporate strategy can be divested (Straub, 2007). This divestment reduces the risks of the merger failing resulting from allocation of resources to business areas not fitting the corporate strategy. A divestment strategy should then be developed, potential areas of divestment identified and analyzed and an appropriate demerger concept designed (Auerback, 1988).

Leadershipcompatibility issues also have to be taken into account and areas of incompatibility identified. When the leaders relate without conflict, the employees are prone torespectthe leaders and discipline can be promoted in the workplace (Fletcher, 2005). The governance system is also another area that should be considered if the risks of the merger failing are to be reduced. Governing bodies such as program management steering committees have to be functioning effectively if the integration process is to run smoothly (Fletcher, 2005). The common mistake made is the assumption that checks and balance systems are the only elements required for stakeholder interests to receive effective corporate governance.

Another measure that would reduce the risks of failure in the post-merger phase is the strategic evaluation and rewards systems applied on employee performance (Auerback, 1988). There is common tendency for people in organizations to resent the new colleagues who occupy a similar position but get significantly more recognition or compensation. When the performance management and reward systems are not approached delicately, a number of issues such as morale issues, reduced employee productivity and undesired turnover can arise (Fletcher, 2005).

## Conclusion

Global mega-mergers face challenges in both the pre-merger and the post-merger phases which eventually create the risk of failure. Some measures that can reduce this risk of failure include carrying out of a comprehensive due diligence analysis that will result in the formation of a detailed and reliable target profile. It is important to ensure that the target company’s value, operational and functional aspects are gotten right before it can be chosen. In the post merger phase, it is important to ensure the full value potential of the merger is identified and unlocked. A program office is also essential for the coordination and monitoring of the process of integration across the different countries, operational and functional units. Leadership compatibility cannot be overlooked and appropriate methodologies should be formulated to identify possible areas of leadership incompatibility.

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