

The alcatel lucent merger



The Alcatel-Lucent Merger-What went wrong? Referring to the case and this chapter, discuss what conditions and negotiation factors pushed forth the merger in 2006 that were not present in 2001. In 1999, as the Internet boom was approaching its apex, Lucent Technologies was the world's largest telecommunications equipment company (Lazonick & March, 2011). With revenues of \$38.3 billion, net income of \$4. billion, and 153,000 employees for the fiscal year ending September 30, 1999, Lucent was larger and more profitable than Nortel, Alcatel, and Ericsson, its three major global competitors (Lazonick & March, 2011). Unfortunately for Lucent, as quickly as it rose to the top, it began to fall to the bottom. Lucent recognized, and so did its competitors, that something had to be done to sustain profitability in its market. In 2001, Alcatel of France, the communications equipment maker in Paris, and Lucent Technologies, the U. S. telecommunications giant, began negotiations for a merger of the two companies (Deresky, 2011, p. 76). In 2001, many communications companies began to see a fall in sales due to an internet crash. Companies like Lucent that were just years prior at the top of its game in the market were now quickly losing sales and on the brink of bankruptcy (Lazonick & March, 2011). Creating a merger was a choice that Lucent had to again gain power and profitability, but mergers rarely go easily. As in this case there are two competitors attempting to come together and negotiate for a mutually acceptable agreement that affects the future of both companies and the employees.

THE ALCATEL-LUCENT MERGER ! 3 By the mid-2000s it became evident that Lucent was faced with the choice of becoming merely a " niche" player in the communicationstechnologyindustry or finding a partner to supplement its

resources so that it could compete once again as a "full line" supplier. In May 2001, Alcatel and Lucent held initial merger talks with a view to creating a \$50 billion global firm. A year earlier Lucent would have dominated such a combination. By May 2001, however, Lucent had already been severely damaged by the downturn in the telecommunications industry.

In contrast, Alcatel sales and profits remained strong at the time of those merger talks. If the merger had gone through, Alcatel shareholders would have owned 58 percent of the combined company. It had been agreed that the new headquarters would be in Murray Hill, New Jersey and that Alcatel Chairman Serge Tchuruk would run the company. In the end, the 2001 merger failed when Alcatel insisted that because of its stronger position it would select 8 of the 14 board members, while Lucent Chairman Henry Schacht insisted that his company send two more members for an even split (Sorkin and Romero 2001).

The 2001 merger was not successful because negotiations were not successful. For longterm positive relations, the goal should be to set up a win-win situation-that is to bring about a settlement beneficial to all parties concerned (Deresky, 2011, p. 152). Unfortunately, that was not the case with this merger. The two companies could not agree on how much control the French company would have. Lucent's executives apparently wanted the deal as a "merger of equals," rather than a takeover by Alcatel (Deresky, 2011, p. 176).

Furthermore, according to Deresky (2011), the negotiation process should encompass five stages: preparation, relationship building, exchange of task-related information, persuasion, and concessions and agreement (p. 153).

The entire negotiation process in 2001 had flaws. THE ALCATEL-LUCENT MERGER ! 4 Research the status of the merged company at the time of your reading this case. What has happened in the industry since the merger, and how is the company faring? In 2006, Alcatel was almost twice the size of Lucent in terms of revenues and employees when the merger that created Alcatel-Lucent took place (Lazonick & March, 2011).

Since then, the merger has proven to be successful overall. To support this, in February 2013, a five year managed services agreement was announced by Alcatel-Lucent with KPN, the leading telecommunications service provider in the Netherlands (Mena Report, 2013). According to the report, Alcatel-Lucent will plan, design and implement an end-to-end solution to provide KPNs network with increased capacity, upgraded equipment, and best-in-class customer service processes.

Alcatel-Lucent will also help KPN transform its existing multi-vendor voice and core networks enabling its customers to access and share multimedia content from wherever they are or using the device of their choice be it a smartphone, computer or tablet (Mena Report, 2013). Two years after the merger, Alcatel-Lucent University received a certificate of quality from the European Foundation for Management Development, an honor bestowed on only 14 corporate universities throughout Europe (Alcatel-Lucent University, 2010).

Evaluate the comment that the merger is “ a giant transatlantic experiment in multicultural diversity. ” What evidence is there that the company has run into cross-cultural problems since the merger took place in 2006? THE ALCATEL-LUCENT MERGER ! The comment was made because there were so

many multicultural and diversity issues surrounding the merger. While Lucent was an American company that conducted its business within the borders of the United States, Alcatel was already a global business before the merger.

Alcatel “ already operated as an international company with a wide mix of nationalities” (Deresky, 2011, p. 176). The question was raised by many during the merger, “ how will the merged company deal with cross-cultural conflicts? ”, but Tchuruk said that, while cultural issues could arise, everything is under way to make sure this human factor is dealt with (Deresky, 2011, p. 176). This statement of confidence was actually part of the reason why the merger was actually somewhat ironically poised with problems because there were indeed many problems related to multicultural diversity.

Some of these problems included language barriers between members of the merged companies, their stockholders, and other stakeholders. Analysts quickly suggested that the corporate culture of Lucent clashed with Alcatel’s French business model (Deresky, 2011, p. 177). This was coupled with Russo’s inability to work well with Tchuruk and it soon became clear that it was a poor decision to appoint leaders based on their nationality rather than their skills. Russo was also the first woman to run a company listed on the CAC 40 in the male dominated world where French business and politics overlap (Deresky, 2011, p. 77). Chinese rivals were also at Alcatel-Lucent’s doorstep providing similar service and technology for less money. According to Deresky (2011), a Barron’s article in August 2008 noted that “ while it might have been helpful if outgoing CEO Patricia Russo had spoken French,

that's not why she and Chairman Serge Tchuruk failed to make a go of the 2006 merger of Alcatel and Lucent Technologies (p. 177). 5 THE ALCATEL-LUCENT MERGER ! 6 How much of the decline do you attribute to leadership problems, as opposed to industry factors?

I think the majority of the decline was attributed to leadership problems. The structure of the organization is only effective if the leaders within it are committed to achieving company objectives and working with each other as a team. They must perform their roles and responsibilities knowledgeably and creatively when necessary. The cultural change that was required to create an entrepreneurial spirit throughout the company began with executives being willing to relinquish some of their existing control to drive decision making downward through the organization.

The purpose was to enable faster and better decisions and more competitive responses to market conditions and customer desires (Lazonick & March, 2010). What, if any, factors should have been negotiated differently? Just about everything should have been done differently during the attempted first merger in 2001, but both companies did learn a lot from that merger and they were better prepared in 2006, although still a far cry from being as ready as they should have been.

The executives of both companies really did not take cultural values and differences into consideration as much as they should have and as it turned out they had a difficult time communicating with each other, not only due to language barriers, but also just because business was conducted so differently between the French and American cultures. THE ALCATEL-LUCENT MERGER !

References

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