Reading
Why mergers fail

A Before you read the article, discuss these questions.

1 Whose shareholders benefit more in a takeover: those of the acquiring company or those of the one that is being acquired?

2 What is corporate culture? How might it affect the success or failure of a merger?

B Read the article. Then answer these questions.

1 According to the article, whose shareholders benefit most in a takeover?

2 Why do so many mergers fail, according to the article?

3 What do acquiring companies need to do to ensure success?

C Choose the answer.

1 If your reputation is *tarnished* (line 3), it is
a) improved.
b) made worse.

2 If a merger suffers from *poor implementation* (lines 45–46), it is
a) badly planned.
b) badly put into practice.

3 If two organisations are *compatible* (line 75), they are
a) able to have a good relationship with each other.
b) able to be divided into smaller groups.

4 If you have *complementary businesses* (lines 80–81), are they businesses
a) that offer different products in the same range.
b) that offer free products.

5 If you *pay a premium* (lines 107–108), you
a) pay a higher than usual price.
b) pay a lower than usual price.

6 If something is difficult to *replicate* (line 149), it is difficult
a) to find.
b) to copy.

7 If the *odds are stacked against* you (lines 160–161), you are
a) likely to succeed.
b) likely to fail.

D Complete these sentences with some of the italicised words and phrases above. Then make sentences of your own with the remaining italicised words.

1 We need to make sure that the software is .... with our computer applications.

2 Successful businesspeople have a will to succeed even when the .... them.

3 The new manager's skills are .... to those of the existing team members.

4 We won't be able to .... this level of sales next year.

13 Takeovers and mergers

Marrying in haste

Mergers and acquisitions continue apace in spite of an alarming failure rate and evidence that they often fail to benefit shareholders, writes **Michael Skapinker.**

Deutsche Bank Dresdner Bank
Die Beraterbank

The collapse of the planned Deutsche-Dresdner Bank merger tarnished the reputation of both parties. Deutsche Bank's management was exposed as divided and confused. But even if the takeover had gone ahead, it would probably still have claimed its victims. Most completed takeovers damage one party – the company making the acquisition.

A long list of studies have all reached the same conclusion: the majority of takeovers damage the interests of the shareholders of the acquiring company. They do, however, often reward the shareholders of the acquired company, who receive more for their shares than they were worth before the takeover was announced. Mark Sirower, visiting professor at New York University, says surveys have repeatedly shown that about 65 per cent of mergers fail to benefit acquiring companies, whose shares subsequently underperform their sector.

Why do so many mergers and acquisitions fail to benefit shareholders? Colin Price, a partner at McKinsey, the management consultants, who specialises in mergers and acquisitions, says the majority of failed mergers suffer from poor implementation. And in about half of those, senior management failed to take account of the different cultures of the companies involved.

Melding corporate cultures takes time, which senior management does not have after a merger, Mr Price says. 'Most mergers are based on the idea of "let's increase revenues", but you have to have a functioning management team to manage that process. The nature of the problem is not so much that there's open warfare between the two sides. It's that the cultures don't meld quickly enough to take advantage of the opportunities. In the meantime, the marketplace has moved on.'

Many consultants refer to how little time companies spend before a merger thinking about whether their organisations are compatible. The benefits of mergers are usually couched in financial or commercial terms: cost-savings can be made or the two sides have complementary businesses that will allow them to increase revenues.

Mergers are about compatibility, which means agreeing whose values will prevail and who will be the dominant partner. So it is no accident that managers as well as journalists reach for marriage metaphors in describing them. Merging companies are said to 'tie the knot'. When mergers are called off, the two companies fail to 'make it up the aisle' or their relationship remains 'unconsummated'. Yet the metaphor fails to convey the scale of risk companies run when they launch acquisitions or mergers. Even in countries with high divorce rates, marriages have a better success rate than mergers.

Mark Sirower asks why managers should pay a premium to make an acquisition when their shareholders could invest in the target company themselves. Mr Sirower denies he is saying companies should never make acquisitions. If 65 per cent of mergers fail to benefit shareholders, 35 per cent are successful.

How can acquirers try to ensure they are among the successful minority? Ken Favaro, managing partner of Marakon, a consultancy which has worked for Coca-Cola, Lloyds TSB and Boeing, suggests two conditions for success. The first is to define what success means. 'The combined entities have to deliver better returns to the shareholders than they would separately. It's amazing how often that's not the pre-agreed measure of success,' Mr Favaro says.

Second, merging companies need to decide in advance which partner's way of doing things will prevail. 'Mergers of equals can be so dangerous because it is not clear who is in charge,' Mr Favaro says. Mr Sirower adds that managers need to ask what advantages they will bring to the acquired company that competitors will find difficult to replicate.

Managers need to remember that competitors are not going to hang around waiting for them to improve the performance of their new acquisition. Announcing a takeover will have alerted competitors to the acquiring company's strategy. Given how heavily the odds are stacked against successful mergers, managers should consider whether their time and the shareholders' money would not be better employed elsewhere.

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