Cross-border mergers among multinational businesses
Agami, Abdel M
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CROSS-BORDER MERGERS AMONG MULTINATIONAL BUSINESSES

Abdel M. Agami (Email: aagami@odu.edu)
Old Dominion University

The number and value of cross-border mergers and acquisitions has increased significantly in recent years as a result of the increase in competition, growth in global markets, and rapid changes in technology. The purpose of this article is to examine some of the issues involved in cross-border mergers among multinational enterprises, suggest means of overcoming problems encountered in cross-border mergers, and present a case study of how a German multinational company overcame the problems it faced in a recent merger with a US company.

There has been a significant increase in the number and value of cross-border mergers among multinational businesses in recent years. Some of the reasons for this recent increase are due to an increase in competition, the growth in global markets, and the rapid changes in technology. In order to justify a merger, management usually claims that the merger will produce synergy. It claims that the merger will increase revenues, earnings, cash flows, the value of stockholders' equity, and will benefit society. The purpose of this article is to discuss some of the issues involved in cross-border mergers among multinational businesses, suggest means of overcoming problems encountered in cross-border mergers, and present a case study of how a German multinational company overcame the problems it faced in a recent merger with a US company.

INTRODUCTION

There has been an increase in the number of mergers and acquisitions recently. However, due to national sentiments and the relatively high rate of unemployment in Europe, mergers of companies in the eleven EU nations was less than 10% of the total value of mergers in Europe. The resistance to mergers and acquisitions within EU members has urged EU corporations to look outside EU for potential target corporations. This is evidenced by the mergers of Chrysler and Daimler, Bankers Trust and Duetchbank, and Nissan and Renault in recent years. Also the recent currency crisis in Asia has made many Asian corporations targets for acquisition by both US and European corporations (Labaton, 1998). Table 1 provides some of the recent cross-border mergers and acquisitions. Table 2 gives some evidence of the increase in mergers for the US, Europe, and Asia.

ISSUES RAISED BY CROSS-BORDER MERGERS

A cross-border merger raises many issues. Among them are: Does the CEO of the acquiring company have a vision of why he/she wants to buy the target company? Does the acquiring company have a strategy and a plan of integrating the operations of the newly acquired company? Is there a strategy to convince stockholders, customers, employees, government, and the financial press that the proposed merger will produce synergies and add value? How does the acquiring company plan to overcome culture clash? In which currency is success measured? How does the CEO handle employee reaction to the merger? Who is going to run the new company?

Vision:

One of the talents that distinguishes leaders and successful CEOs of multinational businesses and leaders in general from ordinary people is their vision. It is not easy to explain what vision is and whether it is a talent or a product of experience, or both. Nobody knows exactly, but some people seem to have the ability to see ahead of their contemporaries. A CEO may have a vision

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TABLE 1
SOME RECENT CROSS-BORDER MERGERS AND ACQUISITIONS

Acquiring Company	Target Company	Value ($billion)
British Petroleum (UK)	Amoco (US)	55
Daimler-Benz (Germany)	Chrysler (US)	40
Deutsche Bank (Germany)	Bankers Trust (US)	10
NationsBank (US)	Barnett Bank (UK)	16
BP/Amoco (UK)	Atlantic Richfield Co. (US)	36
Hoecht (Germany)	Rhone-Poulenc (France)	---
Bertelsmann AG (Germany)	Random House (US)	---
Siemens (Germany)	Westinghouse (US)	---
Deutsche Telekomm (Germany)	Sprint Co. (US)	---
BMW (Germany)	Rover (UK)	---
Ford (US)	Jaguar (UK)	---
Royal Dutch Schell (Neth./UK)	Texaco (US)	---
Vodafone/Air Touch (UK)	Mannesmann (Germany)	162
Citigroup (US)	Schroders (Germany)	2
ABN Amro (Netherlands)	Generale de Banque (Belgium)	12
Texas Utilities (US)	Energy Group (UK)	11
Universal Studios (US)	PolyGram Philips (Netherlands)	11
Investor Group (Spain)	TELLESP (Brazil)	5
Enso (Finland)	Stora Kapparbergs (Sweden)	5
Teleglobe (Canada)	Excel Communications (US)	6

Source: Various Issues of *The Wall Street Journal*

TABLE 2

MERGER AND ACQUISITION ACTIVITY

Year	Value ($Billion)		
	US	Europe	Asia
1994	**227**	**150**	**30**
1995	**356**	**300**	**80**
1996	**495**	**350**	**60**
1997	**657**	**500**	**80**
1998	**1,192**	**600**	**70**
1999	**1,426**	**1,250**	**240**

Source: Thomsom Financial Securities Data

that he or she can do better with a company, a patent, a software, an idea, than the people who presently control or own them. A patent that is underutilized in the hands of a target company may be fully utilized by the acquiring company and the new entity. A software that is presently sold only in the target company's country of domicile could, after a cross-border merger, be sold globally. Vision explains why some CEOs are willing to pay more for a company than its market value. It also explains why, in some cases, a CEO buys a losing company or one on the brink of bankruptcy.

A Strategy and Plan of Action:

Vision is the starting point; however, vision should be translated into a strategy and plan of action. How are the operations and resources of the acquirer to be integrated with those of the acquired company in such a way that merger synergies will follow? We have all read or heard of many mergers that ended in duplicated resources, blockages, inefficiencies, and customer complains and/or loss. It is usually easier to merge two entities when their operations are vertically integrated than horizontally integrated. When a company that has an under-utilized global distribution system merges with a company that has developed good products but is lacking in distribution resources, both of them benefit from utilizing each other's under-utilized resources. Many mergers of recent years were of this type. Companies that have good products have acquired companies with global distribution outlets, and vice versa. Companies that have both manufacturing and distribution resources of equal strength will have to figure out a way of integrat-

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ing their operations in such a way that some synergy is generated. This usually requires closing some facilities of one or the other company, a decision that in many cases takes time, patience, and tact to make.

Selling the Proposed Merger to Constituents:

The CEO of the acquirer also has to present a persuasive argument to shareholders, the financial press, governmental agencies, employees, society at large, and other interested parties that the merger is justified. Usually the shareholders of the acquired company are satisfied when the acquiring company pays them a price which is higher than the current market price of their stock. However, proving that the deal is worthwhile from the acquiring company's point of view is a little harder. The CEO has to prove to the acquiring company's shareholders that the merger will produce synergies that will, if not immediately, in the long run increase the value of their equity and produce more earnings and cash flow. The financial press and analysts are also interested in the prospects and future financial performance in the form of increased market value, earnings, and cash flow.

Culture Differences:

The CEO of the acquiring company should expect, and have a plan to deal with, cultural clashes as the employees and executives of the two merging companies start working together in two different environments to achieve the common objectives of the new entity. Language problems as well as the various cultural dimensions identified by Hofstede: individualism versus collectivism; large versus small power distance; strong versus weak uncertainty avoidance; masculinity versus femininity; and short-term versus long-term orientations (Hofstede, 1984 and 1991).

Currency Issues:

In a cross-border merger the issue of which currency to be used as a basis for measurement is of vital importance. When one of the two companies is obviously bigger and more dominant, the currency of this company is used to measure expected synergy and prove to constituents that the merger will be beneficial and also for measuring financial performance of the new company subsequent to acquisition. This is true for mergers that are classified as purchase. In cases of pooling of interest or merger of equals, deciding which currency is to be used for justifying the merger as well as measuring post-merger financial performance becomes more difficult. The CEO as well as the CFO of the entity must give this issue serious consideration. Choosing the relatively more stable currency is usually preferred; however, fluctuations in the value of currencies is clearly beyond the control of the executives.

Employees and Management:

Employees also have to be briefed on how the merger is going to impact them. Because the level of anxiety and fear of employees for their job security as a result of the merger is high, the CEO has to be prepared to address this issue up front and in a convincing way. Additional costs needed to induce early retirement and costs of retraining and relocating other employees have to be taken into consideration and incorporated in the measurement of the price to be paid for the merger. The CEO also has to present credible evidence to the various governmental agencies that the merger is not going to severely curb competition, produce a monopoly, or dangerously increase unemployment. In addition the CEO has to provide evidence to customers and society at large that the merger will not reduce the quality of the products or services produced by the new entity and will not increase their prices.

The issue of who is going to run the new company has to be addressed. Cost of compensating members of management who are to leave must also be incorporated into the decision and included in the cost of the merger. Again, it is much better that management be candid up front about who is to stay and who leaves. Some of the recent years' mergers have delayed this decision and ended up with two CEOs competing for power and spending their time and efforts trying to consolidate power rather than running the company. In some situations the merger resulted in too large a board to be able to manage the company effectively (Brimelow, 1999).

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MERGER SYNERGY

This is a concept that simply means that the combined entities will produce greater returns than the sum total of the returns produced by each entity independently. In theory at least, this means more returns for stockholders, higher compensation for executives and employees, much better products and services for customers, more taxes for the government, and/or value added to the society. The increase in return of the combined entities can be achieved through eliminating redundant and/or fully utilizing under utilized research and development, production, and/or marketing resources and facilities.

Literature on mergers and acquisitions is, however, not conclusive as to whether a merger's synergy is fact or fiction. A number of empirical studies have shown that mergers and acquisitions increase the wealth of stockholders of both the target and acquiring corporations (Dodd and Ruback, 1977; Bradley, 1980). On the other hand, a study by Roll shows that the gains to stockholders of the target company represents wealth transferred from the stockholders of the acquiring company, and is not a net gain. This is known as the "Hubris Hypothesis" (Roll, 1986). A study by Bradley, Desai, and Kim supports the existence of positive abnormal returns to the shareholders of target corporations at the takeover announcement and also shows evidence that profit from acquisition is transferred from the acquiring firm to the target corporation (Bradley, Desai, and Kim, 1988).

Similarly, there is no conclusive evidence that cross-border mergers and acquisitions create more value to stockholders than local mergers and acquisitions. A study by Doukas and Travlas found statistically significant positive abnormal returns for multinational companies at the acquisition announcement when acquiring target companies that brought the firm into a new geographical market and even higher abnormal returns when the firm diversified simultaneously across the industry and geographic markets (Doukas and Travlos, 1988). Several studies have shown that US target companies experience significantly higher wealth gains when acquired by foreign rather than US companies (Harris and Ravenscraft, 1991; Shaked, Michel, and McClain, 1991). On the other hand, Cebenoyan, Papioannou and Travlos found that returns to stockholders of target companies acquired by foreign companies were not significantly different from those acquired by domestic companies (Cebenoyan, Papioannou and Travlos, 1992).

Unfortunately, the verification of claimed synergy cannot be made at the inception of the acquisition, but can be done only subsequent to acquisition. Many promising proposals of merger have ended up in failure. Some of the failure examples in recent history include the acquisition of WordPerfect by Novell. Novell acquired WordPerfect for $1.4 billion, which was $700 million more than the bid that Lotus made. The merger did not work and Novell sold WordPerfect for $200 million to Corel two years later, resulting in a loss of $1.2 billion (Sirower, 1997).

WHAT PRICE TO OFFER:

A business acquisition decision has to be viewed as a capital investment decision, a big capital investment decision! The price to be paid to the target company is the investment or the bash outflow. It must produce cash inflow. The cash inflow to the acquirer must not only exceed the cash outflow, but provide a return that is at least equal to the present return that the acquiring company is making.

Making the business acquisition decision on the basis of cash flow rather than income avoids the trap that many business acquisitions fall into: the debate over whether the merger should be accounted for using purchase of pooling. The financial statements of the new entity usually look better under pooling than under purchase. Under pooling, the assets of the target company acquired are consolidated with the assets of the acquirer using the old book values rather than fair values and no goodwill is recognized as a result of the merger (AICPA, 1970). As a result the pooling method would report higher income than the purchase method due to lower depreciation and amortization. Furthermore, the pooling of interests will result in a higher rate of return on book value as a result of the overstatement of income and understatement of assets (FASB, 1998; Smith,

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1998).

The price (including premium or goodwill) paid by the acquiring company to the target company or its shareholders is the investment. The form of payment (stock or cash) should not make any difference in making the business acquisition decision, even though payment in the form of stock is presently accounted for as pooling-of-interest and cash payment is accounted for as a purchase. The FASB has recently issued an Exposure Draft that, in effect, will kill the pooling-of-interest method (FASB, 1999).

Cash flow is generated from the business acquisition as a result of fully utilizing resources that presently are not utilized or are underutilized, reaching new geographical areas as a result of the merger, acquiring a target company that provides products or services that complement the acquirer's products or services, and downsizing human resources by eliminating redundant positions. However, management should be careful in projecting cash savings from eliminating redundant positions. Elimination of positions may not result in elimination of people. In many cases the acquirer company finds itself committed to long-term contracts with certain people. In other cases, management may decide to keep certain talented and experienced people even though their positions are eliminated. Cash outflow may also be saved if the target company brings certain patents, softwares, channels of distribution that the acquirer used to pay royalties, rent, or fees for before the merger took place. Another source of saving may arise from the advantage of economy of scale: the new company might be able to negotiate better interest rates on borrowing and lower prices for procuring raw materials and parts. The new entity may save income taxes or tariffs by shifting some of its purchasing, producing, or selling activities from one country to another depending on the tax laws in the countries in which it operates.

Even though the decision to merge is complicated due to the fact that so many variables have to be taken into consideration and so many parties have to approve the merger, the financial aspect of the decision is not so complicated. Therefore the CEO and his or her CFO should get a head start and evaluate the decision financially before their intentions are made public and the number of players in the acquisition game increases. The acquirer should translate sources of synergies into cash flow and establish the maximum price he or she is willing to pay without affecting the minimum desired rate of return. Table 3 presents a number of cases to illustrate how the acquirer company can determine the maximum price to pay without sacrificing the minimum desired rate of return required by the acquirer (100%).

In Scenario 1, it is assumed that both the acquirer and the target companies have a rate of return of 10%. In Scenario 2, it is assumed that the acquirer rate of return is 10% and the target company's is 8%. In Scenario 3, the acquirer rate of return is 10% and the target company's is 25%. For each scenario three cases are presented: the first case chows the maximum price to be paid by the acquirer if there are no synergies expected from the merger; the second case shows the maximum price to be paid if there are some positive synergies; and the third case shows the maximum price to be paid if the merger produces negative synergies. The maximum price the acquirer should be willing to pay as presented in Table 3 can be expressed quantitatively as follows:

$$P = \frac{EC_t}{R_a} + \frac{ES}{R_a} \quad (1)$$

Where:

EC_t = expected net cash flow generated by the target company before acquisition

R_a = rate of return required by the acquiring company

ES = expected net cash flow generated from merger synergy

P = price to be paid by acquirer

It should be clear from both Table 3 and equation (1) that the maximum price the acquirer is willing to pay is the sum total of two prices: the price to pay for cash flow generated by the target

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company, EC_t / R_a , and the price that the acquirer is willing to pay for merger synergy, ES / R_a.

It is important to point out the assumptions and limitations in the above discussion. It is assumed that the synergies that will be generated from the merger are to continue indefinitely. If the synergies generated from the merger have a limited duration, present value of these synergies should be used rather than capitalized. The above analysis utilizes the acquirer's rate of return to capitalize both the cash flow generated by the target company and the synergies produced from the proposed merger. However, a higher rate should be used if the degree of risk implied in the operations of the target company and/or the merger synergies are expected to be higher than the degree of risk in the operations of the acquirer, and vice versa if the degree of risk of the operations of the target company and/or the merger synergies are expected to be lower than the degree of risk in the operations of the acquirer.

A CASE STUDY

Company A is a German company. It has an established reputation as a manufacturer of cars of high quality and superior engineering. The company was dominant in manufacturing luxury cars for many years. However, starting in the 1980s, it faced severe competition by Japanese auto makers. In 1989, Toyota established a luxury car franchise in the US under the brand name Lexus. Similarly Nissan introduced Infiniti as a luxury car. By 1992, Lexus sales in the US exceeded Company A's sales of luxury cars. Many car analysts pointed out that the trouble with Company A's cars was that they were over engineered, expensive, and not fuel efficient.

In early 1993 Company A's CEO announced that, after a painful self-assessment and evaluation of the company's performance in the past few years, the board had decided to make major strategic changes. The company would move from a manufacturer known, to a great extent, for producing and selling luxury cars of high quality to a company that would provide a full line of high quality cars in all segments of the market. He declared that Company A had to change its philosophy of emphasizing engineering and innovation and totally disregarding price, economy, and changes in trends to a balance of quality and economy. Shortly after that, the company announced a plan to manufacture a line of small cars, develop a "lifestyle" vehicle which was a four-wheel drive sports utility vehicle (SUV), close some of its expensive home plants, and open new plants overseas where labor was relatively cheaper and cars could be produced more efficiently.

The SUV car project was established as a model for the future of the company. Management of Company A did not view the SUV project as another routine task, but as a do or die project. It hinged its future on its success. The plant was located overseas, executed with a team carefully selected from both home and local countries, and managed with persons chosen globally. As the CEO of Company A put it, "We wanted the SUV project to be a learning field--the creation of a new product and a new plant, with a new administrative system, in a new country."

At the beginning many people were skeptical. Some trade magazines called the experiment a "recipe for disaster." Some engineers from Company A were upset and shot back, "We build the best and others build junk! We have been making cars for 110 years, don't you tell us how to make cars." The attacks were met with counter attacks from other members of the team who countered, "We may build junk but you will not be building the cars you are building much longer unless you change your ways." Some critics doubted that the large, proud, conservative company would be able to change and adapt to market conditions. Some executives said that "some customers will not buy a car that is not made in the HOME COUNTRY." Others countered that "made by COMPANY A is all that counted."

In spite of all this skepticism, the introduction of the SUV by Company A was, by any measure, a success story. After being in operation for just over a year, the plant was selling over 30,000 cars in the United States alone. By 1998 the plant was producing 300 cars a day in two shifts, or more than 60,000 cars a year. However, Company A could not produce these cars fast enough to meet the demand for them. As a result

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of the success of its SUV in the US and the demand on it being in excess of the capacity for producing it with the company's existing resources, Company A's CEO was on the lookout for a suitor for merger.

TABLE 3

WHAT PRICE?

SCENARIO 1:	Before Acquisition		After Acquisition		
	Acquirer	Target	Case 1	Case 2	Case 3
Value of the Company	\$100	\$50	\$150	\$170	\$130
Annual cash flow (C)	10	5	15	17	13
Rate of Return (R)	10%	10%	10%	10%	10%
Synergy (S)			0	2	-2
Price for target's cash Flow (EC_t / R_a)			50	50	50
Premium (ES / R_a)			0	20	-20
Maximum price $(EC_t / R_a) = (ES / R_a)$			50	70	30

SCENARIO 2:	Before Acquisition		After Acquisition		
	Acquirer	Target	Case 1	Case 2	Case 3
Value of the Company	\$100	\$50	\$140	\$190	\$110
Annual cash flow (C)	10	4	14	19	11
Rate of Return (R)	10%	8%	10%	10%	10%
Synergy (S)			0	5	-3
Price for target's cash Flow (EC_t / R_a)			40	40	40
Premium (ES / R_a)			0	50	-30
Maximum price $(EC_t / R_a) = (ES / R_a)$			40	90	10

SCENARIO 3:	Before Acquisition		After Acquisition		
	Acquirer	Target	Case 1	Case 2	Case 3
Value of the Company	\$100	\$50	\$225	\$300	\$150
Annual cash flow (C)	10	12.5	22.5	30	15
Rate of Return (R)	10%	25%	10%	10%	10%
Synergy (S)			0	7.5	-7.5
Price for target's cash Flow (EC_t / R_a)			125	125	125
Premium (ES / R_a)			0	75	-75
Maximum price $(EC_t / R_a) = (ES / R_a)$			125	200	50

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The CEO of Company A had the vision that if he could find a car company that had some experience with producing SUVs and a sales outlet in the US, he could expand the operations of Company A in the US and lower the cost of producing its cars as a result of increasing the volume. Then one day it happened: a match made at an International Auto Show in Detroit. The CEO of Company A met the CEO of Company B, a US car manufacturer, and learned that Company B was also looking for a suitor for merger. With a solid manufacturing and sales presence in the US, Company B relied on trucks and SUVs for 70% of its sales. It had turned itself into the lowest cost car producer in the US. This seemed right away like a perfect match. Company B complemented Company A. If they could agree to merge, between the two of them they would have everything a successful car manufacturer dreams of: advanced technology, experience in producing cars economically, and the ability to market them globally. As one of the directors of Company A put it, "By combining and utilizing each others' strength, we will have a pre-eminent strategic position in the global marketplace." Industry analysts believed that the fact there was so little overlap between the two companies made the deal a good fit. Company B's CEO could not wait to put his hand on all the technologies, or at least some of them, that he could utilize in Company B's cars and turn these underutilized technologies into practical manufacturing processes to produce economical cars enjoyed by everyone.

After the initial meeting between the two CEOs, there were many meetings at all levels of management from each side. The objectives of these meetings were to develop a plan to integrate the operations of the two companies, project the synergies the merger would produce, decide on the price, and develop a strategy for selling the proposed merger to constituents (stockholders, customers, employees, government, and society). They agreed to share their production facilities, technologies, and experience to produce their prospective cars more efficiently. They decided not to initially downsize or lay off workers, employees, middle management, or high level management. As far as the financial aspects of the merger, they predicted an initial savings from merger synergies equal to $1.4 billion in the first year after the merger (1998); these synergies were expected to rise to $3 billion within several years once the two companies fully integrated their operations and eliminated duplication of resources. The source of the initial synergies of $1.4 billion is the increase in profit and cash flow generated from utilizing their idle resources more fully and the increase in sales. They estimated that, as they gained more experience and learned about each others' operations and resources, they could produce another $2 billion of additional synergies.

In the announcement of the merger the two CEOs articulated their vision of integrating their strengths: the advanced technology of Company A and the experience in efficient production and wide distribution of Company B. They were precise about the synergies to be generated from the merger: increased sales, and the reduction in cost of manufacturing as a result of allocating the high cost of research and development over larger volume. It meant lower product cost and increases in sales, earnings, cash flows, and the price of the stock. These sounded like music in the ears of customers, stockholders, and the financial press. They also emphasized increasing the quality of Company B's cars and making Company B more affordable; nothing sounds better to customers than quality and affordable prices. To gain the approval of employees and government, they announced that they had no plans to downsize or lay off workers, employees, middle management, or high level management.

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TABLE 4

COMPANY A's AND COMPANY B's FINANCIAL PERFORMANCE BEFORE AND AFTER THE MERGER

	BEFORE MERGER 1997 (Dollars)			AFTER MERGER 1998 (Dollars)
	Company A	Company B	Combined	Combined
Revenue	$70 billion	$61 billion	$131 billion	$155 billion
Operating Profit	$2 billion	$5 billion	$7 billion	$10 billion
Net Income	$2 billion	$3 billion	$5 billion	$6 billion
Cash flow from operations	$6 billion	$8 billion	$14 billion	$20 billion
Stockholders' equity	$20 billion	$11 billion	$31 billion	$36 billion
Total assets	$76 billion	$60 billion	$136 billion	$160 billion
RRA	3%	5%	4%	4%
RRE	10%	27%	16%	17%
Average annual number of employees			421,661	433,939

By the end of 1998, the new company's financial statements provided evidence that verified management's vision and projections. Just a few months after the merger was agreed upon, the new company's financial statements showed an increase in revenue of $24 billion over the preceding year, which was a increase of about 18%. Operating profit increased by $3 billion (an increase of 43%) over the preceding year, and cash flow from operations increased $6 billion (an increase of 43%). All these increases exceeded projections and were generated earlier than planned. Sales continued to increase at a higher rate than the increase in expenses in the first, second, third, and fourth quarters of 1999, as evidenced by the increase of operating profit and cash flow from operations as shown in Tables 4 and 5.

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TABLE 5

COMBINED ENTITIES FINANCIAL PERFORMANCE IN 1998 AND 1999

	1998 (Euro)	1999 (Euro)
Revenues	132 billion	150 billion
Operating Profit	8 billion	10 billion
Net Income	5 billion	6 billion
Cash Flow from Operations	17 billion	18 billion
Stockholders' Equity	30 billion	36 billion
Total Assets	136 billion	174 billion
RRA	4%	3%
RRE	17%	17%
Average Annual Number of Employees	433,939	463,561

SUMMARY AND CONCLUSIONS

Cross-border mergers and acquisitions have increased in recent years as a result of the increase in competition, globalization, and changes in technology. It is very likely that this trend will continue in the future. In this article, the author developed a framework for merger strategy that, if followed, will minimize failures. The CEO of the acquiring company must have a vision for the future of the company after acquisition. Vision is a necessary condition, but not sufficient to guarantee that the merger will succeed. As soon as the CEO decides to consider a merger, the real work starts. A plan for integration of the operation of the acquiring and acquired companies should be developed in as much detail as possible. A projection of the synergies that will be generated from the integration should then be made. These synergies should be related to the premium and price to determine if they provide sufficient return and justify paying the price. Finally the CEO has to develop a strategy of how he or she is going to sell the merger to constituents (stockholders, customers, employees, government, and the financial press) and prove the value of the proposed merger.

This article also presented a real merger case to illustrate the process. The CEOs had clear vision of why they wanted to merge. Company A had strength in engineering and developing cutting-edge technology, but lacked volume to absorb their cost. Company B, on the other hand, had efficient production facilities, low cost, and broad market outlets. The two companies developed a thorough plan of integration, a conservative projection of synergies, and were able to prove to their constituents the value of the merger. The performance subsequent to the merger exceeded expectations.

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