Transcription Lesson 4 (Reasons and challenges for M&A)

Socio-political changes and investors' perceptions of the health of a country's economy and its attractiveness as a location for new investments, act as drivers for M&As. As a result, M&As have become a major global corporate restructuring strategy to deal with economic shocks and to compete in a global market. The motives for M&As are often strategic and involve the improvement of an organisation's overall performance through cost savings; the elimination of overlapping operations; improved purchasing power; increased market share; or reduced competition. Other motives include growth, widened product lines, absorption of technology or management skills, and the ability to quickly acquire new markets. To purchase another organisation can be quicker, less risky and less costly than developing products or markets, or expanding internationally from scratch. Additional motives are outlined in the prescribed book and summarised in table 14.5 on page 393.

Often managers envision grand synergies that end up as unworkable or buy an organisation that isn't what it seemed to be because they were under a false impression. They often underestimate the costs and logistical difficulties of consolidating the operations of merged organisations with very different cultures. As a result, they fail to keep key employees, maintain the salesforce momentum, and satisfy customer needs.

Organisations must then look for potential M&A targets with a more than 50/50 chance of turning out well and indicators such as those listed below:

- A purchase price that is low enough – a 10-percent premium over market as opposed to 50 percent – so the buyer doesn't need heroic synergies to make the deal work.
- A target that is significantly smaller than the buyer and in a business the buyer understands. The more "transformational" the deal, such as entering a new business arena, the bigger the risk.
- A buyer who pays in cash and not in overinflated stock.
- Evidence that the deal makes both business and financial sense and isn't the brainchild of some empire-building CEO (referred to as hubris motives).

M&As give rise to cultural, commercial, and logistical difficulties and it is, therefore, important that M&A are skilfully managed to ensure a strategic and organisational fit between the two entities. The prescribed book presents further insights into the

References: Peng, MW & Meyer, KE. 2019. *International business*. 3rd edition. Andover, United Kingdom: Cengage Learning; Visagie, RG, Poggenpoel, MP & Myburgh, CPH. 2014. *An Appreciative Merger and Acquisition Team Coaching Strategy for the South African Hotel Industry*. [Online], Available: http://www.ajhtl.com/uploads/7/1/6/3/7163688/2016_article_1_vol_5__1_.pdf [25 May 2020].

challenges that can be encountered in managing M&As on page 395. Unique challenges that form part of pre-acquisition include the lack of familiarity with foreign cultures, institutions and business systems, and also nationalistic concerns against foreign takeovers. Post-acquisition challenges occur when trying to realise the synergies that motivated the merger in the first place. There are often conflicting objectives of creating new capabilities and exploiting existing resources in the larger organisation. Getting people from previously competing organisations to work together and adapt to each other can be quite challenging, especially if they used to seeing each other as arch-enemies. This is even harder when dealing with different countries with foreign cultures, for example.

References: Peng, MW & Meyer, KE. 2019. *International business*. 3rd edition. Andover, United Kingdom: Cengage Learning; Visagie, RG, Poggenpoel, MP & Myburgh, CPH. 2014. *An Appreciative Merger and Acquisition Team Coaching Strategy for the South African Hotel Industry*. [Online], Available: http://www.ajhtl.com/uploads/7/1/6/3/7163688/2016_article_1_vol_5__1_.pdf [25 May 2020].