The Mismanagement of Mergers and Acquisitions

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ABSTRACT

In today’s business world, it appears to be impossible for companies to survive without expanding through deals that result in mergers and acquisitions. Mergers and acquisitions represent a favourable medium of growth. However, studies indicate a high rate of failure in these operations. Evidently, there are areas that are mismanaged during the course of a merger or acquisition.

If organizations make a decision to go through a merger or acquisition, it is vital that they devote significant attention and resources to understand and deal with opportunities and challenges presented during its processes. Through our research we have come to identify four important aspects as integral to a successful merger and acquisition. These components: culture, synergies, leadership and politics, each independently and together when mismanaged become the source of a merger or acquisition failing. If we are to envision the newly formed organization post a merger or acquisition as the structure, we see these four components as the pillars of this structure. The strength or weakness of these pillars will determine the future of the newly formed organization. At the other end of the spectrum, the very core aspects that result in success, we believe when mismanaged can spell catastrophe for the organization. However, lessons in mismanagement in these very four strategic areas can be the game changer that could possibly turn a merger and acquisition failure into success. It is only through an analytical study of the mismanagement pertinent in these four individual areas that we arrive at answers so that we may change this dominant trend of failure in mergers and acquisitions.

Keywords: Mergers and Acquisitions, Failure, Culture, Synergy, Leadership, Political Issues.
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I. INTRODUCTION

Conventional thinking in the business world is driven by a spirit of competitiveness. In the business world we are not conditioned or schooled to think in terms of interdependence. Paradoxically, the success of our businesses typically depends on intricate cycles of processes, operations and functions coming together. In today's world, a merger or acquisition should typically translate to a larger pool of shared resources. Not only in economic terms but also in terms of cultural awareness, political know how and a broader knowledge pool in general. This, for the organization, ideally, should mean a strong competitive advantage, a bigger or stronger market share and a niche that they may not have enjoyed before. Ironically, what a large body of research indicates is that the opposite of this is what happens. Culture, Politics, Synergies and Leadership tend to be mismanaged and/or neglected more often than not and become the very weaknesses that end up bringing a merger or acquisition to a screeching halt with an immense investment of resources wasted.

1.1 Background of the research issue

It is more imperative than ever before for companies to maintain and sustain a competitive advantage in today's dynamic, global market place. In fact, today's business world is characterized by an increase in merger and acquisition activities. Through these operations companies can enter new markets, reinforce their competitive position, incorporate new technologies and acquire new competencies (Jackson and Schuler, 2001). Today, one witnesses mergers and acquisitions across diverse industries, ranging from bank and insurance sectors to oil, aeronautic, high-tech and automotive industries (Leroy, 2003).

Mergers and acquisitions have come to represent a mode of growth. Despite a large number of them failing, the phenomenon continues to spread across the world with large sums of money exchanging hands. As a result, the investments in these operations and the size of the companies, become considerably extensive to have an effect at large. With the economies of the world being affected by the financial debacle in the recent past, it is essential for business to ward off failures, particularly for measures and functions that can be controlled for and managed simply by optimally using the abundance of human capital and other resources at their disposal.
The previous graph, where the ordinate represents the total value of M&A operations at a world scale, highlights the importance of the M&A phenomenon worldwide and across the time.

To name just a few, challenges inherent in our global economy, such as increasing cost of raw materials and an ongoing demand for higher profitability, have come to represent significant sources of pressure for organizations vying for a sustainability in the business world (Jackson and Schuler, 2001). Often the decision for a merger or acquisition brings with it a substantial pressure of time and speed to meet some of the mentioned challenges. Mergers and acquisitions today have become an ongoing phenomenon constructed numerous times, sometimes even in the life of a single organization. It is surprising then, to discover empirical studies revealing alarmingly high failure rates. According to Cameron and Green (2009) fifty to seventy five percent of the mergers and acquisitions result in failures.

It is clear that, if the merger or acquisition is achieved effectively, it can lead to higher levels of profit, creation of value for shareholders and increase in the company’s market shares. However, the success of these activities is by no means assured. In fact, several empirical studies have shown that the failure rates associated to these activities are critical. Indeed, fifty to seventy five per cent of the mergers and acquisitions result in failures (Cameron and Green, 2009).

Many researchers have studied mergers and acquisitions with a focus on their success. However, we believe that currently that represents only a minority in the realm with a fifty to seventy-five
percent failure rate. While we may study the examples of success, we believe just the sheer number of failures when examined may provide more valuable lessons for improvement. Before we start to write about success in Mergers and Acquisitions, it would only be more valuable to identify the roots of the challenges associated with M&A that result in failures.

So with the attempt and hope that our research should shed some light on the causes of failures in mergers and acquisitions, our thesis will focus on the reasons of failures concerning these operations. Furthermore, we will attempt to develop the concept of ‘mismanagement’ of mergers and acquisitions. We will present our gatherings, reflections and empirical findings in the following pages with the hope that our research may serve as a background or a jumping off point for future researchers wishing to deepen their research into the individual or collective constructs of mismanagement in mergers and acquisitions. We are thus not, as Peters and Waterman (1982) would say, ‘In search of excellence’; in contrast, we are ‘In search of failures’.

### 1.2 Research questions

As successful mergers and acquisitions constitute rare exceptions, it is, according to us, essential to focus on their failures as they provide a ground for learning. Through our study, we will explain the reasons which lead to mergers and acquisitions’ failures. In addition, as we want to provide readers with a new approach concerning mergers and acquisitions, through our research, we will develop the concept of ‘mismanagement’ of these operations. The core ideas of our study lie in the following research questions:

- **What constitutes the mismanagement of mergers and acquisitions?**

However, in order to identify the components of mismanagement of mergers and acquisitions, it is imperative to find and explain the reasons that lead to their failures. It is therefore crucial to, first, answer the following research question:

- **What are the main reasons of failures in mergers and acquisitions?**
1.3 Objective and purpose

Given the high rate of failure in M&A, we think that it is more appropriate to focus on unsuccessful mergers and acquisitions. The main purpose of our study is to explain the reasons of failure in mergers and acquisitions. The identified sources of failure will allow us to draw our concept of the ‘Mismanagement of mergers and acquisitions’.

Once the causes are highlighted and the concept of mismanagement is drawn, this thesis may serve as a basis of reflection, and be of great interest, for companies that are planning to go through a merger or acquisition process.

In order to answer our research questions and for the purpose of structure and clarity, we have divided our thesis into several chapters. First, will explain the methodology in order to give our readers an insight about the way we have conducted our research and thesis.

Secondly, as it is important to have a clear understanding of what mergers and acquisitions are, a mode of understanding of the concept will be drawn. Further, we will go on to explain the term ‘failure’.

Then, we will identify the main causes of failure and classify them into four categories; each category represents a specific chapter of our thesis. The first source of failure concerns cultural aspects, the second one is related to the concept of synergy, the third deals with the ignorance of leadership during the operation of a merger and acquisition, and the fourth and last category concerns political issues.

Finally, we will derive an encompassing conclusion based on our main findings, reflections and our empirical literature and bring our thesis to a close with a short discussion of some limitations of our research.
II. METHODOLOGY AND DATA COLLECTION

2.1 Introduction

This chapter will allow us to explain the methodology that we have decided to use through our thesis. This part will thus have as purpose to give readers an insight about the way we have conducted our research and the way we have written our paper. Consequently, we will explain how the thesis has been constructed from the choice of our topic to the final dissertation. We will also explain and argue for the methodological perspective that we are using, showing that it is compatible with our study.

2.2 Methodology

According to Strauss and Corbin (1998, p. 4), ‘methodology is a way of thinking about and studying the social reality’. It enables readers to see and understand the vision of the analyst and her aim in the conduct of the research (Strauss and Corbin, 1998). It also represents a powerful instrument that helps writers develop and understand the different notions that they approach (Daudi, 1987).

According to us, methodology is essential, as it will enable us to write the different parts of our thesis. Indeed, we see methodology as an instrument that will help us make a full use of the information that we have collected. It will allow us to extract as much and as relevant information as possible to answer our research questions.

It will also enable us to develop our ability to create knowledge and make sense for readers (Arbnor and Bjerke, 2009). In fact, methodology is more about the process of knowledge creation than knowledge itself. Using a specific methodology will indeed provide us with a framework; it will guide us in a certain direction and allow us to give to our work a personal touch. Methodology is what allows us to make the difference between merely saying or telling something and really giving meaning to something. It is therefore indispensable to use it in order to create and express knowledge in an appropriate and meaningful way while writing an academic paper. Finally, methodology will help readers understand how the thesis has been constructed and therefore help them understand in a better way the addressed topic.
2.3 Choice of the topic

It seems important for us to explain the process that has led us to the choice of our topic. We will therefore point out the different steps that have conducted us to our topic. In the beginning, when we started to talk about our thesis’ topic, we were both interested in ‘Change Management’. Indeed, it was, according to us, an exciting field to understand and analyse. However, it was too broad, and after discussions with our professors, we realized that we were interested in a particular kind of change, and we therefore decided to focus on merger and acquisition operations.

Then, after some researches, an issue was raised; it was about the critical percentage of failures in merger and acquisition activities. Indeed, it has been shown that more than seventy per cent of mergers and acquisitions fail (Cameron & Green, 2009).

Furthermore, we noticed that many studies were focused on the success of these activities. However, as successful mergers and acquisitions only constitute rare exceptions, we decided to study mergers and acquisitions by paying a particular attention to the reasons of failures. Moreover, we wanted to build our own approach of their obvious mismanagement. Our topic therefore became ‘The mismanagement of mergers and acquisitions’.

2.4 Research approach

2.4.1 Qualitative versus quantitative approach

Two types of approaches can be considered while conducting a research process. The first one is a quantitative approach and the second one a qualitative approach.

On the one hand, the quantitative approach is based on research on large scale. Its purpose is to collect and analyse statistical data. This research approach can remain, for example, on the frequency of occurrence of a phenomenon. Moreover, it can help draw conclusions that, based on the obtained data, can be generalized to a whole studied population (Lewis, Saunders and Thornhill, 2009).
On the other hand, Strauss and Corbin (1998, p. 10) describe qualitative research as ‘any type of research that produces findings not arrived at by statistical procedures or other means of quantification’. In fact, this approach is focused on situational concepts with non-statistical approaches (Strauss, 1987). It can thus allow to study persons’ lives, lived experiences, behaviours as well as the functioning of some entities and social movements (Strauss and Corbin, 1998). Furthermore, this qualitative approach allows to have more freedom in collecting data and information (Bjerke & Arnbor, 2009).

We have chosen to use the qualitative approach as the main objective of our thesis is to explain the reasons of failures in mergers and acquisitions. The qualitative design will enable us to conduct in-depth data analysis of the sources of failure. For our research, this approach is more appropriate than the quantitative one as it will allow us to give robust descriptions and explanations of the causes of failure in the specific context of M&A. Moreover, as the qualitative approach allows to have more freedom in collecting data and information (Bjerke & Arnbor, 2009); it will enable us to study the mismanagement of M&A in different angles and perspectives without restricting us to some rigid definitions.

2.4.2 Case studies

According to Yin (1989, p. 23 quoted in Llewellyn and Northcott, 2007, p. 194), ‘a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used’. We have chosen to use case studies in order to analyse concrete cases of failures in a merger and acquisition context. Through these cases, we have collected and analyzed data that have enabled us to highlight the reasons of failure in mergers and acquisitions.

Besides, our theoretical framework has emerged from the identified sources of failure in the case studies. Indeed, theories that have been developed in our thesis were inspired by the analysis of the case studies. After having identified the reasons of failure, we have categorized them into four different themes, which constitute the components of the mismanagement of mergers and acquisitions. Our study has therefore been built on four main chapters which deal with cultural aspects, synergy concept, leadership ignorance and political issues. Moreover, for each chapter we have decided to illustrate the theories addressed through empirical illustrations represented by case studies.
Furthermore, we have used several cases as it allows to obtain more generable results than a single case. Indeed, it is more appropriate as, according to Yin (2003), it allows to have a more robust conclusion and the obtained analytical benefit is more substantial.

2.4.3 Selection of the case studies

Given the advantages of having multiple cases, we have selected and studied six cases related to the merger or acquisition of a company that resulted in failure. Furthermore, as we have identified culture, synergy, leadership and political issues as relevant sources of failure; we decided to choose our illustrative case studies according to these four areas. Our cases have therefore been chosen in our theoretical framework. Moreover, we voluntarily emphasised each particular aspect above mentioned in the analysis of our cases. For each cause of failure, we have selected two cases, which can be considered as empirical illustrations. Consequently, the cases Daimler-Chrysler and Volvo-Renault have been chosen to illustrate cultural differences. The cases BioMérieux-Pierre Fabre and AOL-Time Warner have been selected in order to represent the problematic of ‘missed synergy’. Then, the cases Volvo-Renault and Fortis-ABN Amro have been analyzed in order to illustrate the issue of leadership. Finally, we have chosen HP-Compaq and BioMérieux-Pierre Fabre in order to illustrate power conflicts in mergers and acquisitions.

Figure 2-1. Way of conducting our research (Realized by Aggoud and Bourgeois)

Cases of failure in M&A
  Identification and categorization of the reasons of failure
Theoretical framework
  Choice of the most appropriate cases of failure
Empirical illustrations

This figure can summarize the way that our research has been conducted. Firstly we have selected relevant cases of failure in M&A. Then, through their analysis and study, reasons of failure have emerged and have been classified into several categories. Moreover, the reasons that have emerged guided us in the choice of the theories that we have developed. Finally, in order to make our thesis clearer, we have decided to use cases of failure as empirical illustrations.
2.5 Data collection

Techniques for collecting and gathering data can be divided into two main categories, primary and secondary data (Arbnor and Bjerke, 2008). In the following part we will discuss the data collection techniques.

2.5.1 Primary data

Primary data consist in collecting new information. Gathering primary data is necessary when the information needed can not be found in secondary sources. There are several ways to obtain primary data which are direct observation, interviews and experiments (Arbnor and Bjerke, 2008). These ways of collecting data make possible the gathering of in-depth information. However, it can be expensive and time consuming. For example, if we consider interviews, planning and organizing them can be time consuming and expensive. Moreover, the quality of the collected information depends on the interaction between interviewer-interviewees, and the quality of the interviewer.

2.5.2 Secondary data

Secondary data are represented by all the available information; it consists in using material already collected (Arbnor and Bjerke, 2008). As we have chosen to only use secondary data, it seems necessary to underline the advantages and disadvantages of this type of data collection technique (Stevens, Loudon and Wrenn, 2006). First of all, it constitutes a low cost source of information as it only requires time. Secondly, these kinds of information are easy to find. Thirdly, some information are only accessible and available under the form of secondary data. Finally, as secondary data imply varieties of information, we are not restricted to limited information. Concerning the negative aspects of secondary data, we can quote the fact that as information is abundant; some of them may not be relevant. Moreover, their precision can be questioned as they can come from a primary or secondary source. Thirdly, the information are not necessarily up-to-date. Finally, the quality of these data is difficult to estimate and it is often questioned (Stevens, Loudon and Wrenn, 2006).

As our thesis is focused on cases of failure in mergers and acquisitions, we have chosen to only use secondary data. Indeed, we needed existent information concerning our topic and more particularly concerning cases of failure. In this perspective, it is difficult to create new
information. However, interview of experts in the M&A field would maybe have added more insight to our thesis. Though due to limited time, we have chosen to focus on secondary data.

2.6 Reliability and validity of the research

It is important for us to discuss the quality of our qualitative research, especially since it can affect the conclusion and the results of our study. ‘A good qualitative study can help us understand a situation that would otherwise be enigmatic or confusing’ (Golafshani, 2003, p. 601). According to Golafshani (2003), we may assess the credibility of a qualitative study according to the capability and effort of the analyst. Reliability and validity represent two notions that can be used in order to reflect on the quality of our research design (Patton, 2001, quoted in Golafshani, 2003).

‘In qualitative research reliability can be regarded as a fit between what researchers record as data and what actually occurs in the natural setting that is being researched, i.e. a degree of accuracy and comprehensiveness of coverage’ (Bogdan and Biklen, 1992, p. 48, quoted in Cohen et al, 2007, p. 149). However, some people question the use of the term ‘reliability’ and its suitability in qualitative studies (Cohen et al, 2007). It is why this concept is replaced by other terms which seems to be more appropriate such as ‘credibility’, ‘neutrality’, ‘confirmability’, ‘dependability’, ‘consistency’, ‘applicability’, ‘trustworthiness’, and ‘transferability’ (Lincoln and Guba, 1985, quoted in Cohen, 2007, p. 148). Nevertheless, Lincoln and Guba (1985, quoted in Cohen, 2007) prefer to use the term ‘dependability’, while considering reliability in a qualitative research. It means that the results are consistent and could be reused.

Validity seems relevant while considering the efficiency of a research (Cohen et al, 2007). Several authors have different ideas concerning the meaning of ‘validity’. For some of them, it is more about authenticity (Guba and Lincoln, 1989, quoted in Cohen et al, 2007). For others, ‘understanding’ is more appropriate in qualitative studies (Mishler, 190, quoted in Cohen, 2007). Still, others think that it is related to certainty and confidence. Moreover, several types of validity may be distinguished. Internal validity represents accuracy. It means that the phenomena being analyzed must be presented accurately by the study. External validity concerns more the extent to which the findings can be generalized to other populations, cases or situations (Cohen et al, 2007).
Furthermore, reliability is required but not sufficient in order to make the study valid whereas validity turns out to be a sufficient but not a necessary condition in order to make the study reliable (Cohen et al, 2007).

The empirical case studies and the historical research that we have used to delve deep into the subject, makes us believe that our research has reliability. Indeed, more than one authors’ research in the field of failures in mergers and acquisitions have related to the topic of culture, politics, synergies and leadership.

Concerning the validity of our research, there is a match between our theoretical framework and the empirical cases that have been studied. However, as we have analyzed six cases, we are unsure if our findings can be generalized.
III. MERGERS AND ACQUISITIONS: AN OVERVIEW

3.1 Introduction

During the last decades, many researches about mergers and acquisitions have been conducted. The complexity of these operations and their increase, have caught the attention of several scholars and authors. Through this chapter, we will attempt to give readers a clear view of merger and acquisition operations. We will therefore set a mode of understanding for the concept of merger and acquisition; explain the motives that lead to these activities and establish their classification. Moreover, we will describe their evolution over time. Finally, we will give our own explanations of the M&A process and discuss what we consider as failures.

3.2 M&A: Mode of understanding

In their strictest sense, mergers and acquisitions constitute two different terms. On the one hand, the term ‘merger’ means that two companies present the willingness to merge their activities and organize a common control of their assets (Sachwald, 2001). A merger represents therefore ‘the unification of two or more firms into a new one’ (Bresslmer et al. 1989, Pausenberger 1990, and Brauchlin 1990, quoted in Straub 2006, p.15). On the other hand, the term ‘acquisition’ emphasizes that a firm presents the willingness to buy another one (Sachwald, 2001). Indeed, an acquisition represents ‘one company’s purchase of the majority of the shares from another’ (Bresslmer et al. 1989, Pausenberger 1990, and Brauchlin 1990, quoted in Straub 2006, p.15).

The difference between a merger and an acquisition is that, after a merger, the result of the unification leads to the existence of fewer firms than before the operation (Straub, 2006). Though, after an acquisition, the target firm can still remain autonomous; it can also be partially or completely integrated into the acquiring company (Straub, 2006). Moreover, mergers and acquisitions represent, in a legal point of view, different transactions (Straub, 2006).

The two terms, merger and acquisition, are often used together. Generally, the expression ‘merger and acquisition’, also known in its abbreviation ‘M&A’ or merely reduced to the term ‘merger’ or ‘acquisition’, is related to the activities of purchasing and selling companies (Straub, 2006). In this thesis, we will use these terms, interchangeably, in their broadest sense. The definition will
therefore be, as described by Kootz (1996, quoted in Straub, 2006, p.16) as ‘all forms of inter-industrial relationship and cooperative activities involving the purchase or exchange of equity stakes’.

3.3 Classification and motivations

Usually, mergers and acquisitions are classified in three categories. They are categorized as vertical, horizontal or conglomerate (Gaughan, 2007). Horizontal mergers and acquisitions refer to companies that are present in the same sector of activities (Leroy, 2003). Companies represent, in this case, direct competitors in the same industry (Leroy, 2003). As an example, the merger between Chrysler and Daimler can be quoted. The main purpose of these horizontal operations is to reinforce and improve the competitive position of the company. Indeed, the company will benefit, for instance, from economies of scale due to the increase of its size, and it will increase its market shares (Leroy, 2003). The ‘size effect’ will also contribute to increase the company’s power of negotiation with its customers and suppliers (Leroy, 2003).

Vertical mergers and acquisitions refer to the acquisition or merger of a firm with another company with which it has a customer or a supplier relationship (Cameron and Green, 2009). It consists in taking control of companies that are upstream or downstream in the value chain (Leroy, 2003). This type of activities allows, for example, companies to reduce transaction costs and the number of intermediaries (Leroy, 2003). Vertical activities, thus, allow companies to benefit from economies and have an advantage compared to the competitors (Leroy, 2003). Indeed, they increase their market power by controlling the distribution channels and the access to raw materials. As an example, we can consider an airline firm that acquires a travel agency.

In contrast with horizontal and vertical deals, conglomerate activities consist in acquiring or merging with a company which is ‘neither a competitor, nor a buyer, nor a seller’ (Cameron and Green, 2009, p.224). In this case, companies have different activities and are not present in the same businesses. The main aim of these operations is to seek for diversification and reduce the risk linked to economic conditions (Leroy, 2003). As an example, the famous acquisition, some years ago, by Philipp Morris, a tobacco company, of a firm that was present in the food industry General Foods, can be mentioned (Leroy, 2003).
In addition to these three categories, Cowin and Moore (1996, p.67) describe concentric mergers and acquisitions as operations ‘involving firms with unrelated activities but where there is a relationship between the product technology, the marketing or both’.

Furthermore, mergers and acquisitions can also be categorized as domestic or cross-border activities. Chen and Findlay (2003, p.15) define cross-border mergers and acquisitions as ‘any transactions in assets of two firms belonging to two different economies’. This definition implies that the companies are not located in the same economies, or the operation takes place within the same economy but with firms that belong to different countries (Chen and Findlay, 2003). Concerning the domestic mergers and acquisitions, the firms involved are located in one country and operate in its economy (Chen and Findlay, 2003).

Besides, mergers and acquisitions can also be classified as friendly or hostile. According to Chen and Findlay (2003, p. 24), a friendly M&A is characterized by the fact that ‘the board of target firm agrees to the transaction’ whereas a hostile M&A is characterized by the fact that the operation is undertaken ‘against the wishes of the target firm and the board of the target firm rejects the other’.

In fact, the classification of the different types of mergers and acquisitions is important in order to understand the motivations behind these activities (Cameron and Green, 2009). Moreover, the number of merger and acquisition operations has been increasing over years. It may be interesting to explain the reasons why companies absolutely want be involved in these activities. In the literature several reasons for merging with or acquiring other companies can be found. However, we will present the one that are, according to us, the most significant.

Growth constitutes one of the most important motivations for undertaking a merger or acquisition process. According to Cameron and Green (2009), growth is the purpose followed by most of mergers and acquisitions. M&A represent a faster way to expand without coping with incertitude of internal growth. However, although companies see, through these activities, an increase in generated revenue, the requirements related to management in larger firms, are more complex. Finally, according to Cameron and Green (2009), growth can lead to possessing new customers and acquiring new facilities, brands, technologies or employees.

Another relevant reason for merging or acquiring is the creation of synergies. If two entities present synergies, the merger may result in a more successful entity (Cameron and Green, 2009).
In other words, the group as a whole is more efficient than the sum of the two separate companies. In this case, the purpose of the acquirer can be of several types (Cameron and Green, 2009). First of all, it can be considered as a growth in revenues due to a new product or service created on the market. Furthermore, synergies can represent a cost cutting such as economies of scale that the acquirer wants to take advantage from. Moreover, economies of scale can be created at different levels (Heldenberg, 2011):

- At the level of research and development: for instance, the acquiring firm can benefit from a technological skill that the acquired firm possesses.
- At the financial level: the increase of the company’s size allows the company to get access to better conditions of borrowing.
- At the level of the production: the business combinations can result in the rationalization of the product range. Indeed, the company will produce less in a more efficient way.
- At the marketing level: cost reductions can be made by gathering all the products which are subjected to a unique marketing campaign.
- At the level of the commercial and distribution networks: mergers and acquisitions can lead to a direct access to a unique distribution channel or to networks that represent a geographic area not exploited yet by the acquiring firm.
- At the organizational level: a rationalization of the organizational structure can be considered due to mergers and acquisitions. For instance, redundant positions in the hierarchy can be eliminated and accountability and personnel management can be subjected to centralization.

Furthermore, synergies can also be financial (Cameron and Green, 2009). Indeed, the costs of the capital such as borrowing costs can be reduced after a business combination.

Diversification can also be considered as a motive of M&A. According to Cameron and Green (2009, p. 225), ‘diversification is about growing business outside the company’s traditional industry’. This kind of motivation has resulted in several conglomerate combinations in the 1960s (Cameron and Green, 2009). Moreover, diversification can represent a need of the company, to create portfolios due to its concerns about the potential earnings of its current markets and due to a willingness to develop a more profitable line of business (Cameron and Green, 2009). Finally, this factor is also considered for the reason that it can reduce risks such as risks of bankruptcy (Heldenberg, 2011).
Acquiring market shares is also part of the motivations for going through merger and acquisition processes. Indeed, a company can decide to merge in order to get access to additional market shares (Heldenberg, 2011). Moreover, if this market shares’ conquest is led in an optimal way, a monopoly position can be reached. In this case, the acquirer can impose its prices. However, it goes against the antitrust laws created in order to prevent monopoly positions.

Besides, mergers and acquisitions can be motivated by the willingness to change an inefficient managerial team (Heldenberg, 2011). Indeed, it is possible that the management established in the target company is not that effective. The acquirer will thus propose to the target firm to merge thinking that it would be more able to manage the business itself. Generally, this kind of motive implies that the merger or acquisition is hostile. Managers of the acquired company have difficulties to accept that their work is criticized and therefore do not approve the desired merger and acquisition.

Another element explaining the willingness to merge could be the personal motivation of managers. Indeed, ‘mergers may occur because managers see a personal benefit’ (Brouthers et al., 1998, p. 348). For instance, mergers can be established by managers in order to increase the company’s size. As a result, it will amplify the prestige and benefits associated to the management of a larger group (Heldenberg, 2011).

Finally, another factor constituting a motive for merging remains in defensive measures. According to Cameron and Green (2009), if a merger threatens the economical position of a company; this company can decide to proceed to another more favourable merger. This is called a defensive merger. The purpose is to ensure a better commercial position for the company due to the weighty competition.

### 3.4 Evolution

According to us, it is important to explain the evolution of M&A. These processes do not constitute recent phenomena as they have been spreading out for over a century. According to Homberg et al. (2009), mergers and acquisitions can be observed through peaks. Indeed, these operations are subjected, at specific moments, to periods of intense activity. These periods are described as waves because it is difficult to exactly know the dates of these periods. In this part, the different waves of mergers and acquisitions will be approached describing their evolution.
both in America and in Europe. According to Gaughan (2002, quoted in Cameron and Green, 2009), there have precisely been five waves of mergers and acquisitions since 1897. Moreover, it is important to consider the different strategic motivations which have led to these significant movements of M&A.

The different waves of mergers and acquisitions are presented on a graph below. It shows the evolution of the M&A phenomenon from 1895 to 2000.

**Figure 3-1. M&A waves during the last decades (Adapted, Homber et al, 2009, p. 76)**

![M&A waves graph](image)


According to Gaughan (2007), the waves generally occur following economic, regulatory and technological shocks. Economic shocks represent an economic expansion which drives companies to grow and thus meet the demand of the economy. Then, regulatory shocks concern the elimination of barriers that may prevent alliances. Finally, technological shocks can appear as technological changes in the industry.

The first two waves occurred in the same time in America and in Europe. The first wave of mergers and acquisitions started in 1897 and was completed around 1904. This period characterized the industrial revolution and the fact that the infrastructure and technologies were encountering relevant evolutions (Sachwald, 2001). The firms touched by this wave were mainly belonging to manufacturing and mining industries (Gaughan, 2007). During this period of time,
horizontal mergers which were conducted to buy competitors and benefit from economies of scale were fostered (Gaughan, 2007).

The second wave took place in 1916 and was interrupted in 1929 during the stock market crash and the great depression. Sectors such as electricity, banks and chemistry were touched. At this time, horizontal mergers were very important, mainly for the firms which wanted to increase their size (Heldenberg, 2011). Furthermore, during this time, an important increase in vertical integration was recorded (Lipton, 2006). Indeed, companies wanted to merge in order to get technical gains, strengthen their sales, improve their distribution and minimize their costs (Weston, 1953, quoted in Enyinna, 2010). Following that, antitrust laws were created in the United States in order to reduce or limit economic concentrations.

Then, a third wave appeared between 1965 and 1969. At this time, it was difficult to develop horizontal and vertical integration operations in the United States due to antitrust laws. That is why the United States fostered activities of conglomerate diversification (Sachwald, 2001). Companies were thus looking for growing through diversification. Moreover, companies were looking for a protection against competition and higher stability of their profits. In Europe, companies did not attend the same situation (Heldenberg, 2011). Indeed, in this continent, antitrust laws were less present and the purpose of European firms was to compete with the big American firms by reaching an appropriate size. That is why they wanted to proceed to horizontal integrations. Though, conglomerate operations were also used by European companies for the same reason as the American firms. Unfortunately, these conglomerate activities did not work and represented an inadequate structure to cope with the requirements of the market (Heldenberg, 2011). These regroupings of firms encountered some difficulties to be competitive because the bureaucracy was too heavy and also because of the difficulty to manage larger portfolios.

The fourth wave occurred between 1984 and 1989 and aimed to make companies focus on their core competencies (Homberg et al, 2009). At this time, the market was not convinced by the fact that conglomerates would lead to a good profitability of companies. This period was also characterized by law interest rates, which resulted in an increase in mergers and acquisitions (Heldenberg, 2011). The most concerned sectors were the oil and textile industries. Moreover, this period marked the appearance of hostile mergers and therefore allowed the investment banks to participate in the investment of hostile takeover bids (Lipton, 2006).
Finally, the fifth wave started in 1996 and describes the globalization and the new economy in which we are currently living. Experts have no information concerning the exact end date of this wave. However, according to Heldenberg (2011), the phenomenon of merger and acquisition has been abruptly stopped by the financial crisis of 2008. Moreover, according to Heldenberg (2011), the coming waves will possess the same properties as the fifth wave. Two elements could explain the relevance and expansion of these recent waves (Heldenberg, 2011). On the one hand, the banking and financial deregulation encouraged the creation of new financial instruments and therefore fostered the funding of mergers and acquisitions. Nowadays, all the big banks have a department ‘mergers and acquisitions’. Consequently, mergers and acquisitions have been facilitated and stimulated by the banking sector. On the other hand, the excess of liquidity had also played a role in mergers and acquisitions. Indeed, some companies with an excess of treasury chose external growth to use their funds in a more efficient way and solve their problem of liquidity.

3.5 Failures and M&A process

As our thesis deals with the mismanagement of mergers and acquisitions, we will focus on the reasons of failures among these activities. It is therefore essential to explain what we mean by failures. In this thesis, the term ‘failure’ will refer to the non acceptance of the process by the majority of the company’s employees, the non realization of the expectations of the firms, the separation of firms that have previously merged or the abandonment of the operation because no agreement could have been found between the firms. Moreover, it is important to notice that, in this dissertation, we will only distinguish mergers and acquisitions by the fact that they are successful or unsuccessful.

Finally, before entering in the core of this thesis and explaining the reasons of failure in M&A, it is important for readers to have a clear view of the process. In the literature, we can find different phases associated to M&A processes (Hasley, 2004). However, we have decided to draw our own picture of the merger and acquisition process based on existing researches and studies. According to us, while planning to go through a merger or acquisition process, several concrete steps have to be followed. The M&A process will therefore be summarized in three main steps.
The first step is the ‘plan and preparation phase’. The purpose of this phase is to prepare both, the acquirer and the potential target, for the change process. Firstly, companies have to compile a list of potential targets. It is also essential to have discussions with these potential targets in order to select, in a well informed way, the one which is the most qualified for the company (Hasley, 2004). During this phase, an evaluation of the target has to be made in order to know if it meets the required criteria. Indeed, consistency must exist between both companies in a cultural, financial, management and mission point of view. A due diligence process has therefore to be conducted. This process is perceived as investigations in order to acquire confidential information about the target firm. According to Sinickas (2004, quoted in Macdonald et al 2005), due diligence is a way to learn and know more about the target company and to avoid any misunderstandings. Furthermore, ‘effective due diligence should be a comprehensive analysis of the target company’s entire business, not just an analysis of their cash flow and financial stability as has traditionally been the case’ (Angwin, 2001, p. 3, quoted in Macdonald et al 2005). Besides, the motivations and objectives have to be explained and defined clearly in order to identify and establish the most appropriate strategy. Finally, it is important to underline the relevance of this phase and to notice that it takes time to be well conducted.

The second step is, according to us, the ‘creating one business’ phase’. This phase concerns the results of the negotiations; the acquirer has to submit a letter of intent which includes the final price and the details of the transaction (Hasley, 2004). This phase is characterized by the fact that an agreement has been found and companies start to work together. It is also characterized by a learning process through which both companies learn more about each other. During this phase, it is important to articulate clearly the company’s vision and define the goals to reach.

The third step is the ‘post-merger phase’. According to us, after the unification of the companies, a ‘check up’ of all the potential sources of problems must be done. Indeed, problems have to be solved at an early stage in order to avoid the dissemination of negative effects within the organization. A particular attention must therefore be given to critical aspects such as the culture or leadership in place. Moreover, it is essential to have a continual look at the strategy established during the first phase, in order to verify if it still fits to the situation and market environment. If it does not fit anymore, new measures must be taken or the strategy has, at least, to be adapted.

In conclusion, we can observe that the process begins at an early stage. Moreover, the first phase of the process requires an advanced preparation and must be clear in order to avoid an
unnecessary source of confusion. It is also naïve to assume that the end of the process can be summarized by the signature of an agreement. Indeed, it goes beyond, and a particular attention must be given to the post-merger phase. Besides, it is important to notice that the strategy behind the M&A is established during the first phase. However, while implementing and integrating the strategy the situation may have changed as a long period of time has passed. Consequently, changes might have occurred in the external as well as in the internal environment implying that companies might have to update their strategy. The factor ‘time’ must therefore be taken into account (Hasley, 2004).
IV. A CULTURAL MISMATCH

4.1 Introduction

Cultural aspects have a determining influence in the success or failure of mergers and acquisitions. However, it appears that companies do not give enough importance to this cultural factor. In this chapter, we will give readers a better understanding of cultural aspects in the context of mergers and acquisitions. We will first discuss the different levels of culture, one being national and the other being organizational. Afterwards, we will address the potential differences and incompatibilities in a culture point of view. Then, we will explain the consequences of the non consideration of cultural differences. Finally, we will illustrate the addressed cultural issues with two concrete cases of failure in M&A.

4.2 Culture: Mode of understanding

First of all, it is important to make a distinction between the different levels of culture, the national culture and the corporate culture (Ravey, Shenkar and Weber, 1996). These two notions are essential as they play a determining role in the integration process of merger partners. Moreover, it is pointless to speak about cultural aspects among organizations if we do not take into consideration the national culture within which these organizations are developed (Ravey, Shenkar and Weber, 1996).

Hofstede (1984, p.82) defined national culture as the ‘collective programming of the mind which distinguishes the members of one group or society from those of another’. Hence, the set of shared values and norms in a nation influences the culture of companies operating or located in this nation. Moreover, the country’s norms and values determine the acceptable and appropriate behaviours and attitudes to adopt. The culture of a firm is therefore determined by its country of origin. Hofstede (1984) has proposed an analysis of culture in a national perspective. It is based on values and norms related to work. The aim is to understand the cultural differences as we do not work in the same way according to where we are operating. In Europe and in Africa for instance, people do not work together in the same way. According to Hofstede (1984), five dimensions can capture the strongest differences between countries in terms of values and norms. The first dimension concerns the ‘Power Distance’. It represents the extent to which people can accept an unequal distribution of power within the organization. The second dimension is ‘Individualism
versus Collectivism’. It represents the extent to which people prefer to act as individuals or as members of a group. The third dimension is ‘Masculinity versus Femininity’. It represents the importance given by the society to values recognized as ‘masculine values’ such as achievement, heroism, material success, competition; or to values recognized as ‘feminine values’ such as human relationship, others’ welfare, sensitivity and modesty. The fourth dimension concerns the ‘Uncertainty avoidance’. It represents the extent to which people of a nation prefer structured situations compared to chaos or uncertain situations. When people search for uncertainty avoidance, it means that they are uncomfortable with and tend to not tolerate ambiguity and uncertainty. The last dimension is related to the ‘Temporal Orientation’. Nations with a long term view are future oriented and seek for economies and persistence whereas nations with a short term view are characterized by the fact that they give a significant importance to the past or the present and preach the respect of traditions and social obligations (De Cenzo, Gabillet and Robbins, 2008).

Hofstede addressed differences at a national level. Nevertheless, it would not be wise to take his analysis too literally. Indeed, Hofstede’s analysis presents some weaknesses. For example, sharing a culture does not necessarily imply that all the people in a nation share the same values and beliefs as there may be influences of subcultures and other social influences. Moreover, his analysis is generalizing to a large extent and may not encompass the diversity of global influences present in our world today. Indeed, his analysis is done within limited national boundaries.

Hofstede’s theory however still holds significance as it highlights relevant cultural traits and markers that often prove instrumental during communicative and collaborative business processes. The caution needs to be to not use his findings as the sole indicator of a particular culture or its people. A good ‘people sense’ and being able to ‘relate’ to people across demographic variation would serve as an asset during the processes of a merger or acquisition. This ability may be summed up as having an expanded ‘sense making’ to deal with the complex picture at hand of merger and, or acquisition. Applying Hofstede’s theory in a broad sense making perspective may indeed be the key to making optimal Hofstede’s research.

To conclude, organizations can not address the global business environment only with their own perspective, they have to be aware and consider the cultural dimensions of the other company’s country while planning to go trough a merger or acquisition process.
Concerning the corporate level of culture, many definitions of ‘corporate culture’ can be found in the literature. This term has been developed in several fields such as anthropology, social psychology and sociology (Smith and Vecchio, 1993). Corporate culture refers to the implicit aspects of organizations. It represents the ‘social glue’ that binds individuals within an organization (Cartwright and Cooper, 1993, p.60). The corporate or organizational culture consists of established rules, values, behaviours, norms, symbols, taboos, rituals, myths, expectations and assumptions that are taken for granted and shared within the organization. Moreover, this set of shared values and behaviours has meaning for people in the company.

Corporate culture also refers to ‘how’ things are done within organizations (Genc, Schomaker and Zaheer, 2003). Culture guides people while making decisions and choices. It helps create order and cohesion within the firm. The unity of thinking and the organizational routines can therefore reflect the culture of a company.

Furthermore, culture is a collective phenomenon. Culture enables people to speak the same language, share the same understanding, bind people together as a group that shares the same purpose and defends the entity to which they belong (Ashby & Miles, 2002). Moreover, culture evolves along the company’s life. It is influenced by collective learning (Finet, 2010). For example, if we have solved an issue once, the second time the same problem will be solved faster.

The organizational identity is also part of the culture. According to Alvesson and Empson (2007, p. 1), ‘the organizational identity represents the form by which organizational members define themselves as a social group in relation to their external environment, and how they understand themselves to be different from their competitors’. The organizational identity enhances the feeling of belonging to a kind of social community where people share the same values and a common sense of purpose.

According to Cartwright and Cooper (1993, quoted in Boatang and Lodorfos, 2006, p. 1407), ‘culture is to an organization what personality is to an individual’. It underlines the importance of the cultural aspect but also the fact that, even if two companies operate in the same field, their culture can be different as they do not have the same shared set of beliefs and convictions.

Ultimately, corporate and national cultures are both highly important. As national culture influences corporate culture, corporate culture should be in adequacy with the environment in which it is established. However, even though it is obvious that these two aspects constitute key
elements to take into consideration while planning to go through a merger or acquisition process, companies too often neglect them. Instead of giving importance to cultural aspects, they keep focusing on financial and economic factors denying the consequences that it may imply on the human capital.

4.3 Cultural incompatibility

As explained above, culture is what makes a company unique, what distinguishes a firm from another. Cultural incompatibility between merger partners can therefore emerge as companies, even operating in the same field or country, have different cultures. Cultural incompatibilities represent a real threat to the success of mergers and acquisitions as they can lead to cultural conflicts and clashes.

Even though cultural fit (or compatibility) has been recognized as an essential factor in mergers and acquisitions, the due diligence process is still stressing financial aspects and synergies’ creation while cultural aspects are underestimated or even neglected (Camerer and Weber, 2003). According to Ravey, Shenkar and Weber (1996, p.1216) the concept of cultural compatibility is ‘well used but ill-defined’. We have already made a distinction between the different levels of culture, one being national and the other being corporate. Moreover, we have seen, through the analysis of Hofstede (1984), cultural differences that can exist according to different nations. At an organizational level, differences can also exist. Trompenaars and Hampden-Turner (1997) proposed a cultural model that helps look at cultural differences. Their model represents seven cultural dimensions.

Table 4-1. Trompenaars and Hampden-Turner's cultural dimensions (Trompenaars and Hampden-Turner, 1997)

<table>
<thead>
<tr>
<th>Cultural dimensions</th>
<th>Universalist: focus on rules</th>
<th>VS</th>
<th>Particularist: focus on relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rules VS Relationship</td>
<td>Individualism: more use of &quot;I&quot;</td>
<td>VS</td>
<td>Communitarianism: more use of &quot;We&quot;</td>
</tr>
<tr>
<td>Group VS Individual</td>
<td>Neutral: don't reveal thoughts and feelings</td>
<td>VS</td>
<td>Affective: reveal thoughts and feelings</td>
</tr>
<tr>
<td>Range of Feelings expressed</td>
<td>Specific: direct</td>
<td>VS</td>
<td>Diffuse: indirect</td>
</tr>
<tr>
<td>Range of involvement</td>
<td>Achievement oriented</td>
<td>VS</td>
<td>Ascription oriented</td>
</tr>
<tr>
<td>How status is accorded</td>
<td>Sequential</td>
<td>VS</td>
<td>Synchronic</td>
</tr>
<tr>
<td>How time is managed</td>
<td>Internal control</td>
<td>VS</td>
<td>External control</td>
</tr>
</tbody>
</table>

The first dimension, ‘Rules versus Relationship’ represents universalist’ cultures in which respect of rules is important; and particularist’ cultures, in which more importance is given to relationships and less to rules. The second dimension, ‘Group versus Individuals’, represents, on the one hand cultures in which people see themselves first as members of a group and on the other hand, first as individuals. The third dimension, ‘Range of feelings expressed’, opposes neutral cultures, where people are less likely to show their emotions, to affective cultures where people reveal their thoughts and feelings. The fourth dimension, ‘Range of involvement’, represents specific oriented cultures and diffuse oriented cultures. Within specific oriented cultures, a distinction is made between the roles of people at the workplace and outside the workplace. Diffuse cultures do not make a distinction between roles of people at the workplace and in private life. For example, in this perspective, the person who runs the company is supposed to have authority wherever we meet her. Moreover, generally, if she runs the company, she is expected to have better opinions.

The fifth dimension, ‘How status is accorded’, refers to; on the one hand, achievement oriented cultures in which people obtain status due to their achievements and performance. On the other hand, it refers to ascription oriented cultures that accord status to people according to characteristics like age, gender, social connections, education or profession. The sixth dimension, ‘How time is managed’, makes a distinction between sequential cultures where the respect of schedule is highly important and time is perceived as series of passing events; and synchronic cultures where relationships are more valued than schedules. Finally, the last dimension ‘How we relate to nature’, refers to the role people give to their natural environment. In cultures characterized by internal control, people tend to control what is happening in their environment, they are convinced that they have the choice; whereas in cultures characterized by external control, people are more likely to let things happen.

These dimensions imply that depending on the characteristics of their organizational culture, people may react differently. For example, a similar problem can be solved in a different way by different companies according to their culture. These differences can therefore constitute a serious threat if they are not detected, understood and treated when a process of M&A is being considered.

Cultural incompatibilities can also appear while considering the management styles of organizations. Indeed, it can oppose organizations which are more formal, with a centralized structure to organizations which are more informal, with a decentralized structure and a focus put on teamwork (De Cenzo, Gabillet and Robbins, 2008). The type of rewarding system can also be
a source of incompatibility. Some cultures develop a rewarding system focused on loyalty whereas others use a system based on performance (Dupont, 2011 and Finet, 2010). The way of making decisions, more individual or closer to compromise and the importance given to communication and channels of communication used are also part of the differences that can appear between two merger partners.

Ultimately, differences have to be taken into account while considering an M&A operation as it creates organizational challenges and constitutes sources of conflicts (Schweiger and Weber, 1992 and Boatang and Lodorfos, 2006). Incompatibilities can lead to critical situations such as departure of talents, appearance of resistance to change, confusion and feelings of frustration. Moreover, cultural fit, acknowledged as a determining factor in mergers and acquisitions, can only be generated if the marriage between the two companies works. It implies to be aware of cultural differences and reflect on steps that might be taken if cultural conflicts had to appear.

4.4 Culture Clashes

Cultural incompatibilities constitute serious threats to the proper functioning of merger and acquisition processes. They play a role in threatening the organizational identity, which binds people together and with the company. They also affect the performance of the merged company (Genc, Shomaker and Zaheer, 2003). In fact, cultural differences constitute barriers and obstacles to the success of mergers and acquisitions, and roots of cultural clashes. For example, they create confusion, resistance and negative emotional responses. It leads to a ‘cultural mismatch’. Moreover, it is important to underline that the main cause of failure due to cultural aspects is not associated to behaviours or beliefs that are different but to the fact that their importance are not well understood. Indeed, they are too often underestimated, for example something can be seen as essential and highly important in a culture whereas in another it is futile and pointless. The challenge is therefore to recognize what is really important in the other’s culture.

Table 4-2. Signs of culture clashes (Cameron and Green, 2003)

<table>
<thead>
<tr>
<th>Stereotyping</th>
<th>We, Us VS They, Them</th>
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</thead>
<tbody>
<tr>
<td>Glorifying past</td>
<td>Old practices VS New practices</td>
</tr>
<tr>
<td>Comparison</td>
<td>Inferior, weaker VS Superior, Stronger</td>
</tr>
<tr>
<td>Information sharing, attitudes</td>
<td>Cooperation VS Coalition</td>
</tr>
</tbody>
</table>

Several signs of culture clashes can be identified (Devine, 1999 quoted in Cameron and Green, 2003). Firstly, people speak in terms of ‘We’, ‘Us’, or ‘They’, ‘Them’. It shows that people stress the differences between both cultures instead of focusing on commonalities. People categorize persons of the other companies due to the more or less big existing differences. In fact, there is a mutual process of stereotyping as people perceive a threat to their identity, to how they perceive themselves according to their organization. A feeling of misunderstanding can therefore appear (Genc, Shomaker and Zaheer, 2003). A second sign is that people talk about ‘the good old days’ (Cameron and Green, 2003, p.235) and glorify the past. People prefer the old ways of doing things and resist to adopt new practices. Thirdly, people of the other company are vilified. Comparisons and evaluations are made by members of both companies about the other. It can lead to feelings of inferiority towards the other company. In fact, one group is portrayed as stronger while the other is portrayed as the weaker one. Another sign lies in negative attitudes from members of one group toward the other. It can simply be represented by passive resistance; however, it can also be represented by more obvious conflicts like arguments or overt aggressions (Schweiger and Weber, 2007). Finally, negative attitudes concerning the sharing of information can also be recognized as a sign of culture clashes.

Culture clashes reflect the fear of people to lose a social attachment to their group, to have no more cultural references, they reflects the fear of being seen as weaker or inferior compared to the others, the fear to not reach new objectives and adopt new practises. Cultural differences create a gap between members of the two companies, a gap that is nurtured by feeling of insecurity and discomfort and that reduces people’s involvement and effectiveness.

In conclusion, culture is often perceived as a ‘small thing’ compared to the attention given to financial aspects (Camerer, Weber, 2003). However, culture constitutes a significant factor while considering a merger or acquisition process. Indeed, it affects the way business is done, the way priorities are set; it also allows the development of a common language and shared understandings. Cultural conflicts and their underestimation constitute therefore critical components of failure in M&A. Cultural differences make difficult for members of the merging partners to see things in the same way. It creates feelings of frustration due to incompatibilities and mismatch in values, beliefs or ways of doing. Cultural differences can also lead to communication issues, refusal to share knowledge and difficulty to coordinate activities. They therefore represent obstacles to the good development of M&A processes.
4.5 Limiting culture clashes?

It may be interesting to emphasise the key aspects to take into account while envisaging to go through a merger or acquisition process. In this part, we will thus underline the aspects which are according to us, in a cultural perspective, the most important to consider; knowing that there are no given ‘recipes’ to manage culture clashes.

First of all, the due diligence process must take into consideration cultural aspects in order to increase the likelihood of a working marriage. The cultural factor is too often denied while the potential benefits of the M&A operations are examined (Camerer and Weber, 2003).

Furthermore, we have to keep in mind that the national and corporate levels of culture are both significant. Besides, elements such as values, beliefs and behaviours that are part of a culture must be fairly evaluated and not underestimated. Moreover, for people within the company, the extent to which the firm will be allowed to keep its identity plays a determining role. In order to reduce the negative impact of this concern, a mutual understanding of the elements that constitute the culture of both companies has to be fostered (Sales and Mirvis, 1985, quoted in Straub 2006). It is essential to point out what is important in each company otherwise things that may be highly important for a company can be perceived as irrelevant for the other, leading to conflicts.

Besides, the potential sources of cultural conflicts and signs of cultural issues have to be detected and analyzed. In fact, being proactive and able to forecast these sources is paramount. It can allow the new entity to reduce feelings of frustration and discomfort that cultural differences can generate. An effective and constant communication is also important to create a healthier climate as people become more sensitive to announcements after a change.

The way culture is changed also represents an important factor. According to Hartmann (2003), there are several ways to determine the culture of the new entity when envisaging a merger or acquisition. Besides, in the literature, different approaches have been developed in order to handle cultural issues. Furthermore, the choice of one particular approach depends on elements such as the economic environment, the nature of the motivations to undertake the M&A, the markets in which companies operate and the size of companies. Nevertheless, it is important to notice that the approaches concerning cultural changes constitute guidelines and thus, do not assure the success of the M&A.
Firstly, the new organizational culture can be created by comparing and selecting ‘the best of both worlds’ (Hartmann, 2003, p.31). It consists in choosing the best of both companies’ cultures in terms of communication and functioning for example, allowing a new culture to emerge. This new culture is different from the one of both companies and presents a new set of values, rules and expected behaviours. However, it is based on the strengths of both cultures. It requires constant communication, team work, comprehension and cultural awareness between the merging partners. It can lead to the creation of the new entity’s identity and it can be fostered by existing similarities in both cultures.

Secondly, the culture of the company which dominates the most can overrule the other culture. In this case, the culture is imposed by the strongest firm. The imposition of a culture can lead to value destruction. However, it can also be effective if it is well-applied. To do so, the reasons why imposing the culture is better according to the new entity’s structure and the economic environment, have to be explained and understood.

Thirdly, the culture of both firms can be differentiated (Gumy, 2007). This approach can be used in the case of conglomerate mergers and acquisitions. In this case, companies have different activities and are not present in the same business. In fact, when two entities evolve in two different environments, cultural differences can be more marked. It is therefore more advantageous to separate both cultures. Synergies can probably be missed, however, companies can continue to operate as two distinct entities and thus avoid culture clashes and conflicts.

Besides, Berry (1983, 1984 quoted in Nahavandi and Malekzadeh, 1988) developed four modes through which acculturation can take place. Acculturation can be defined as ‘changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions’ (Berry, 1980, p.215, quoted in Nahavandi and Malekzadeh, 1988 p.81). These modes determine how two groups of individuals adapt to each other and find solutions to conflicts that emerge. It is also important to notice that, generally, members of one culture tend to dominate and impose their culture to members of the other culture. The different modes represent the extent to which the members of one company are willing to adapt to the others’ culture.
Table 4-3. Modes of acculturation (Nahavandi and Malekzadeh, 1988, Adapted from Berry (1983))

<table>
<thead>
<tr>
<th>Perception of the attractiveness of the other firm:</th>
<th>How much do members of the company value preservation of their own culture?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Attractive</td>
<td>INTEGRATION</td>
<td>Not at all ASSIMILATION</td>
</tr>
<tr>
<td>Not at all attractive</td>
<td>SEPARATION</td>
<td>DECULTURATION</td>
</tr>
</tbody>
</table>


Firstly, in the ‘Integration Mode’, the culture of the partner is perceived as very attractive but members still want to keep the basic elements of their culture such as beliefs, organizational practices and systems that make them unique. Secondly, in the ‘Assimilation Mode’, members of the acquired firm are willing to adopt the culture of the other company and therefore give up their culture. Then, in the ‘Separation mode’, members of the acquired company are willing to preserve their culture by operating separately and independently from the other company. Finally, in the ‘Deculturation mode’, both cultures are perceived as not attractive and are not valued. There is therefore no willingness to adopt neither a culture nor the other. This concept showed that there is not only one way to combine the cultures of merging companies. Moreover, we cannot say that there is a better way than another; but if the merging partners find an agreement concerning the mode of acculturation, we can assume that the integration process will be smoother.

To conclude, it is obvious that cultural aspects play a major role in the success or failure of mergers and acquisitions. Culture is an essential factor as it determines the way people tackle issues, the way they interact with each other, the way the company interacts with its different stakeholders, and attitudes and behaviours of people. Taking the different levels of culture into consideration and estimating fairly the compatibility between both companies is essential. Neglecting such factors constitutes a major reason of failure in M&A and lead to critical phenomena such as the loss of talents, feelings of frustration and discomfort within the organization, decrease of employees’ involvement and resistance to share information and cooperate. Ultimately, cultural aspects constitute, according to us, the first arena of mismanagement in mergers and acquisitions.
4.6 Empirical illustrations

In this part, we will analyze two cases of failure in mergers and acquisitions from a cultural perspective. The consequences of the non consideration of national and corporate cultures will therefore be studied. Two cases will be presented; the first one represents the merger between Daimler-Benz and Chrysler Corporation, and the second one concerns the aborted merger between Volvo and Renault.

4.6.1 Daimler-Chrysler Analysis

The failure of Daimler-Chrysler stems from cultural and political issues; however, we will only focus our analysis on the cultural aspects.

- **Overview of the companies**

Daimler-Benz was created in 1926 from the merger between two German car producers namely Daimler Motoren Gesellschaft and Benz & Cie. Daimler-Benz was known for its high quality products, engineering and luxury cars (Larousse, 2008). In 1998, the German company decided to merge with Chrysler Corporation, an American car manufacturer. On the 7th of May 1998, the announcement of the merger was made public by Jürgen Schrempp the chief executive officer of Daimler-Benz and Robert J. Eaton, the chief executive officer of Chrysler Corporation (Blasko, Netter and Sinkey, 2000).

At this time, both companies were well performing. In the mid-1990s, Chrysler Corporation was the most profitable American car manufacturer. Moreover, Chrysler was known as a risk-taking company. For example, it was recognized for the fact that its vehicles represented the ‘bold and pioneering American spirit’ (Finkelstein, 2002, p.1), while imports were taking a huge place in the market. Chrysler and Daimler were both leaders in their respective markets, located in different parts of the world. Both companies were characterised by skilled workforce and successful products. They also had different know-how and work processes. However, the marriage between these two companies was characterized by significant differences in organizational and national cultures.
Motives

This merger made sense in a business perspective. Indeed, as J. Robert Eaton said on the 17 of July 1997: ‘I think, there maybe a perfect storm brewing the industry today’ (Finkelstein, 2002, p.2). Eaton was, in fact, referring to the emerging environmental concerns about the combustion engine, overcapacity of many car producers and strengthened position of clients that were threatening the automotive industry.

Moreover, for the German company, the motivations of the merger remained on several factors. First, they wanted to reinforce their position on the American car market as their luxury cars hardly captured one per cent of the American automotive market. Indeed, as they focused on high quality products they could not compete in the big American market. Merging with Chrysler Corporation was the occasion to benefit from its dealership network and penetrate into the US market. In fact, Daimler-Benz wanted to keep its name in the luxury car market and expand its products’ range in order to enhance its market shares in the American market and ensure profitability in a long term perspective. Moreover, Daimler-Benz wanted to benefit from economies of scale, Chrysler’s research and development activity, Chrysler’s knowledge in marketing and low design costs.

Concerning the American company, its motives were mainly to penetrate into the European car market and benefit from Daimler’s knowledge in engineering and technology in order to reduce its production costs. Moreover, it was the occasion to reinforce their brand image through the German quality and luxury that Daimler represented. It was also a way to stay back from bankruptcy as Chrysler was considered as fragile in a financial perspective. The company has avoided bankruptcy four times since the Second World War (Blasko, Netter and Sinkey, 2000).

This decision of merging made totally sense as complementarities between both companies were undeniable. They completed each other in terms of products’ range, geographic position and processes. Moreover, they were both looking for a partner to strengthen their position in order to face the upcoming storm that was threatening the automotive industry. As Eaton underlined, they wanted to do together what they could not do alone (Finkelstein, 2002). The first years after the merger, the combination of the two companies was quite successful. DaimlerChrysler was ranged at the third position in the world in terms of earning, capitalization and revenues. However, in 2001, three years after the merger, the outlook became critical. Its market shares in
the American market decreased by 14% and its earning by 20% (Finkelstein, 2002). Moreover, 26,000 workers were fired and it was the beginning of numerous departures in the Chrysler's division (L'expansion, 2001). The merger finally ended in 2007, when Daimler sold the majority of its shares to Cerberus (L’expansion, 2007).

- **A cultural Mismatch**

It is now, according to us, important to explain the reasons why this merger failed, what went wrong in this operation which constituted the first largest Trans-Atlantic merger. First of all, the pre-merger planning of Daimler has put very little weight on the fact that it was a cross-boarder deal. They have assumed that it would not create specific problems and they have not paid attention to the potential emergence of issues due to differences in national and organizational cultures (The economist, 2000). It was a huge mistake that has led to the failure of the merger.

During the negotiations everything went well and the chief executive officers of both companies shared the same vision. However, some issues appeared during the integration process. It is important to underline the main factors of risk related to the operation. Firstly, it was the first Trans-Atlantic merger with such an extent. Secondly, both firms were located in completely different areas characterized by different cultures, languages, traditions and beliefs (Blasko, Netter and Sinkey, 2000). Furthermore, the automotive market was highly competitive; the execution of a merger had therefore to be quick. Finally, it is difficult to lead a merger of equals as, most of the time; one company wants to dominate the other (Nahavandi and Malekzadeh, 1988).

After the merger, the new entity created had to cope with strong cultural conflicts. During the post-merger process, seminars, workshops and trainings were organised and million dollars were spent to make people more sensitive and aware of differences in culture. However, these workshops which concerned topics such as ‘Sexual Harassment in American Workplace’ or ‘German Dining Etiquette’ have not changed the feelings of employees about the existing gaps between business practices and management styles (Finkelstein, 2002, p.4).

As we have seen in the theory, differences in culture, and conflicts emerging from them, make difficult the establishment of an environment that enables the creation of synergies and relationships between people. Moreover, if we come back to the analysis of Hofstede (1984), we can notice that the national culture has a significant influence on the organizational culture of
companies. Indeed, it has an impact on beliefs, norms, management styles, working styles and ways of thinking that constitute the corporate culture. In the case of DaimlerChrysler, the differences in national cultures had a negative effect on the merger. If we take into consideration the dimensions of Hofstede, we can already notice the existence of differences between German and American cultures (Hodgetts & Luthans, 2003). However, it is important to underline that we will use the analysis of Hofstede knowing that it is not wise to take it too literally.

Table 4-4. Value of the indices related to Hofstede Dimensions (1984)

<table>
<thead>
<tr>
<th>Dimension Index:</th>
<th>Power distance</th>
<th>Individualism</th>
<th>Uncertainty avoidance</th>
<th>Masculinity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>35</td>
<td>67</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>USA</td>
<td>40</td>
<td>91</td>
<td>46</td>
<td>62</td>
</tr>
</tbody>
</table>


Firstly, according to Hofstede, Germans present a higher degree of uncertainty avoidance than Americans. In fact, they need to have accurate and detailed plans, everything has to be written and activities must be well structured. They are risk averse whereas Americans feel less the need of procedures and rules and accept more easily risks associated to unknown situations. In the case DaimlerChrysler, Chrysler was known as a risk taking company that enabled innovation whereas Daimler was sceptical towards novelties.

Secondly, both countries are characterized by a low power distance which enables more equal relationships between people at different levels (Hodgetts & Luthans, 2003). However, in Chrysler Company, there was a flatter structure and less hierarchy whereas Daimler was characterized by a more hierarchical structure with more respect for authority.

Furthermore, according to Hofstede (1984), American and German companies present a higher score concerning the individualism factor compared to companies located in poorer countries. However, American companies have a higher degree of individualism than German ones, with less focus on team work. Americans tend to be responsible for themselves and not rely on others to achieve goals (Beuron, De Moura Carpes and Hollmann, 2010).

Concerning the masculinity versus femininity dimension, Germans as Americans countries present a high score in term of masculinity. In the case of DaimlerChrysler, both companies gave
importance to earnings, challenges, achievement and success (Hodgetts and Luthans, 2003). Finally, both companies were short term oriented with a focus put on profit.

Ultimately, even though Americans as Germans cultures present similarities, some differences existed. In the case DaimlerChrysler, the most significant differences concerned power distance, uncertainty avoidance and individualism. For instance, Chrysler was associated to the image of an assertive cow-boy always looking for efficiency; it can be explained by the fact that it was a risk taking company characterized by a high degree of individualism and masculinity and a low power distance (Garal, 2010).

Besides, in terms of organisational practices, both companies operated in completely different ways. While Daimler-Benz was characterized by its centralized, methodical decision making and by a high importance and respect given to hierarchy, authority and traditions, Chrysler was known for its innovation and flexibility. Indeed, in the American side, creativity in decision making and empowerment were encouraged. Both companies had different philosophies; indeed Daimler-Benz was looking for quality at any cost whereas Chrysler was looking for producing cost-efficient products (Garal, 2010).

In addition to the divergences in management styles, which was more formal and structured for Daimler and more flexible and relax for Chrysler, both companies had different views on important things. For example, the rewarding systems of both companies were different (Camerer and Weber, 2003). Managers at Chrysler earned more than managers at Daimler-Benz. Indeed, a manager at Chrysler could earn four times more than a manager at Daimler.

Furthermore, the merger was described by Schrempp as ‘a merger of equals, a merger of growth and a merger of unprecedented strength’ (quoted in Finkelstein, 2002, p.3). This definition implies that no one wanted to takeover the other. The aim of the merger was to exploit the strengths of each other to be stronger and reach the third position after General Motor and Ford, in the world automotive market. However, in practice, it was not true. Daimler wanted to be ‘more equal’ than Chrysler and impose itself, its culture. In fact, the merger of equals was only reflected in the name of the created entity. The lack of transparency from Daimler has led to the creation of tensions in the merged company. The willingness of Germans to dominate has conducted to dissatisfaction of employees and to a large number of dismissals as people did not want to suffer from internal competition (Camerer and Weber, 2003). To illustrate the consequences on employees of the lack
of transparency about the hidden takeover, a joke at Chrysler was: “How do you pronounce Daimler-Chrysler?” – “Daimler, the “Chrysler” is silent” (Camerer and Weber, 2003, p.401). It shows that the attempt of Daimler to dominate had a negative influence inside the company.

Another difference remained on the perception of the brands by people of both companies. Daimler was considered as the fancy brand with its luxury Mercedes, whereas Chrysler was considered as the poorer one. In fact, there were two different products and brands’ philosophies. This has also created tensions as Daimler wanted to be seen as superior. For example, Daimler retailers did not want to sell Chrysler cars to not affect their image of luxury. Moreover, some executives at Daimler publicly announced that they would never drive a Chrysler (Camerer and Weber, 2003).

- Conclusion

In conclusion, complementarities and synergies existed between Chrysler Corporation and Daimler-Benz. The purpose of the merger was to strengthen the position of both companies in the world automotive market. The merger aimed to exchange knowledge and capabilities and benefit from research and development activities or distribution channels for instance. However, the merged entity failed to realize the expected synergies and increase its revenue. Indeed, there were many issues between both companies that have not been taken into consideration at the beginning of the operation and that have affected the success of the integration process. Among these problems, the differences at the national and organizational levels such as differences in management styles, rewarding systems or products and brands philosophies have generated tension and departures of many key persons in Chrysler. Moreover, the willingness of Daimler to impose itself made difficult the non creation of conflicts. The failure of this merger remained therefore in the mismanagement of cultural aspects. From the beginning of the operation, both companies were focusing on financial aspects neglecting potential cultural issues which appeared to be significant and more and more difficult to manage in the day-to-day activities.

4.6.2 Renault-Volvo Analysis

In this part, we will study the failure of Renault-Volvo’s merger in a cultural perspective. However, it is important to notice that this failure is also related to political and leadership issues.
Overview of the companies

The company Renault, which is a French car manufacturer, was created in 1899 by three brothers namely, Marcel, Fernand and Louis Renault (Renault SA, 2011). Concerning Volvo AB, the Swedish car manufacturer, it was created in 1927 by Gustaf Larson and Assar Gabrielsson (Volvo Car Corporation, 2008). Volvo was represented by two main divisions, Volvo Car and Volvo Truck. The latter division constituted, at the time of the merger, the essential of the company’s turnover (Truc, 2000). At the end of the eighties and at the beginning of the nineties, before the announcement of the merger, both companies were well performing in spite of some minor difficulties.

The beginning of the nineties was characterized by a tough economic context. Indeed, the European market was pessimistic as it was disturbed by the penetration of the Japanese in the automotive industry (Jannick, 1992). However, the chairman of Renault, Louis Schweitzer, as well as the chairman of Volvo, Pehr Gyllenhammar, had a clear vision of the upcoming storm threatening the industry. This is why, at the end of the eighties, Renault was looking for a partner. The truck division of Renault was therefore negotiating with Volvo.

Furthermore, in this difficult economic context, concentration and strategic alliances were unavoidable for the survival of companies which did not have an appropriate size. The marriage between Volvo and Renault constituted therefore a good deal for both parts. Renault was looking for an ally in order to increase its size and be less fragile. In fact, Renault, which was in recovery, was worried about its future due to its modest size. Moreover, Volvo seemed too small to cope with the upcoming storm.

Additionally, Volvo was a good potential partner as it had a good brand image. In fact, both companies would have benefited from the merger due to their geographic and products’ complementarities. Renault was present in Southern Europe and America whereas Volvo was well positioned in Northern Europe and Great-Britain (Truc, 2000). Moreover, their products were completing each other as Renault produced small cars and Volvo trucks. The combination of their strengths would have allowed both companies to create synergies, enter new markets and expand their products’ range (Abescat, 1993).
The merger

The year 1990 was marked by the strategic alliance between Volvo and Renault. Indeed, Renault owned 8% of the Capital of Volvo AB, bought 45% of Volvo Truck and 25% of Volvo car. The Swedish company, in turn, bought 45% of Renault Truck and 20% of Renault car’s division (Fortin, 1993).

During the following three years after the strategic alliance, everything went well. The logical continuation of this story thus lied on the merger of the companies. Additionally, common structures were already established in order to allow each brand to develop their next new vehicles (Fortin, 1993). In September 1993, the announcement of the merger project was finally made public by the chairmen of Renault and Volvo. The marriage between Volvo and Renault aimed to create the new entity Renault-Volvo RVA. It was also the opportunity to reach the sixth position in the automotive industry, including trucks, worldwide. Finally, the merger implied that the capital of the new company would be owned by Volvo and Renault respectively for 35 and 65% (Fortin, 1993).

However, even though the deal seemed promising, some issues appeared. Indeed, factors such as differences in corporate and national culture had not been taken into consideration. First of all, the main difference in a national perspective remained on the role of the government in the automotive industry. In France, the government had the control of a big part of the industry whereas in Sweden, the state only controlled a negligible part. Renault was in fact a state-owned company.

Table 4-5. Value of the indices related to Hofstede Dimensions (1984)

<table>
<thead>
<tr>
<th>Dimension Index</th>
<th>Power distance</th>
<th>Individualism</th>
<th>Uncertainty avoidance</th>
<th>Masculinity</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>68</td>
<td>71</td>
<td>86</td>
<td>43</td>
</tr>
<tr>
<td>Sweden</td>
<td>31</td>
<td>71</td>
<td>29</td>
<td>5</td>
</tr>
</tbody>
</table>


Furthermore, if we go back to Hofstede’s dimensions, we can take into consideration the fact that the power distance’s score is higher in France than in Sweden. In fact, another difference between both companies lied in their structures. Renault’s structure was centralized whereas Volvo’s structure was decentralized with a more balanced power. Moreover, the French board of
directors was known to be authoritarian as Schweizer. Gyllenhammar also tried to establish this kind of authority but he was criticized as Swedes did not appreciate centralized power and always tried to reach consensus (Lutaud, 1995). Moreover, according to Hofstede (1984), France as Sweden are considered as individualistic country; however, in Sweden, people are known to be more team-work oriented. Additionally, the masculinity index is incontestably higher in France than in Sweden. It fact, the values shared in both countries tend to be quite different. Finally, in Sweden, situations of uncertainty are less tolerated than in France. It is thus, according to Hofstede’s theory, at first sight, obvious that cultural differences exist in a national perspective.

However, the major cause of the non realization of the merger was, according to us, that no attention had been given to the symbolic of Volvo for the Swedes. Swedes considered Volvo as part of the heritage of their country. The Swedish company represented a national pride (Abescat, 1993; Truc, 2000 and Jannick, 1992). Volvo’s shareholders were therefore against the merger as well as the employees who feared to loose their identity. Moreover, the fact that Renault was owned by the French state did not help. Instead, it has reinforced the feeling that Renault would not care about Swedish employees’ values and interests. In fact, in a ‘Swedish’ point of view, the merger could represent the nationalization of Volvo, a Swedish national heritage, by the French government. Moreover, as the merger was supposed to give Renault 65% of the new entity, it was maybe seen as the one that would have the control of the company whereas Volvo would have less weigh in the decisions. There was obviously a misunderstanding of the symbolic of the company and the lack of communication and leadership did not arrange anything. Ironically, the consequences of the aborted merger led to the fact that Volvo was finally sold to the American Ford and is now owned by a Chinese constructor, Geely (Nordstrom, 2010 and Rabreau, 2010).

• Conclusion

This case shows the importance of consideration of cultural aspects in M&A. National culture has an imprint in companies’ organizational cultures. It influences values, ways of doing, but also what is perceived as a symbol and as important. It is therefore essential to give weight to cultural factors to allow the creation of a new organizational culture which respects the national culture of both companies and which does not represent an obstacle to the success of the operation. Furthermore, it is important to mention that in this part, we have focused our analysis on cultural aspects. However, this failure also stems from political and leadership aspects. The leadership aspects will be explained, later in the thesis, in the appropriate chapter.
V. MISSED SYNERGIES

5.1 Introduction

Synergy creation constitutes one of the most important motivations while planning to go through a merger or acquisition process. Furthermore, as Monin and Vaara (2005) noticed, it would be difficult to consider a merger or acquisition which does not aim to create synergies. Indeed, what is the interest to conduct a merger or acquisition if no value is created? A merger without synergies does therefore not make sense.

Besides, synergy represents a significant measure standard of success or failure (Kui and Shucheng, 2011). It constitutes an indicator of M&A performance and, it is considered as a more appropriate determinant of value realization in mergers and acquisitions than stock market reactions and accounting performance (Larsson and Finkelstein, 1999). Moreover, synergy also constitutes an important source of failure that has to be taken into account. Academic researches reveal that many cases of mergers and acquisitions fail because of the non realization of synergies. In fact, managers often fail to materialize the expected synergies.

In this chapter, we will first draw a mode of understanding for the concept of ‘synergy’. Then, we will address the different types of synergies. They will be classified in three categories: operational, financial and managerial. Additionally, we will underline issues related to the lack of synergy in mergers and acquisitions. We will also explain the different reasons which can lead to the non creation of synergies as it constitutes a significant cause of failure in mergers and acquisitions. Finally, the last part of this chapter will be dedicated to the analysis of cases which illustrate failures in M&A due to a lack of generated synergies. The cases that will be presented are BioMérieux-Pierre Fabre and AOL-Warner.

5.2 Synergy: Mode of understanding

The concept of synergy has been first derived from the Greek words ‘sunergia’ and ‘sunergos’ that respectively mean ‘cooperation’ and ‘working together’ (Ray, 2010). It may refer to different domains requiring team work such as medicine, business and sports. Then, a definition of synergy was brought by Ansoff in a business perspective. This author (1965, p. 28, quoted in Karenfort, 2011) defined the term synergy as ‘joint effects resulting from the addition of new products or markets’. Moreover,
in the business environment, the ‘2+2=5’ effect often summarizes the concept of synergy. It means that ‘the combined efforts of two or more agents create such effects which are greater than the sum of their individual effects’ (Ray, 2010, p. 310). The term ‘synergy’, thus, shows a kind of chemistry between two combining entities.

In other words, synergy enables merged companies to be run more efficiently and create more value. Indeed, the profit of a merged entity can be higher than the sum of the profits of the independent entities through a decrease in costs or an increase in revenues (Shaver, 2006). Additionally, a merger or acquisition would not make sense if it does not create more value than what the independent companies could generate separately (Subramanian, 2010).

### 5.3 Types of synergy

Generally, a business combination implies a situation in which value is created. In mergers and acquisitions, synergy can create several kinds of benefits. Three types of synergy will be distinguished in this study, the operational, financial and managerial ones.

First of all, operational synergy represents one of the main sources of value creation. It can be achieved at different levels such as production, marketing, R&D and administration. Moreover, operational synergy can be presented under several forms.

Operational synergies can be represented through economies of scale (Larsson and Finkelstein, 1999). Economies of scale refer to a reduction of the average costs of the company due to the increase in the volume of production of a specific product. According to Ray (2010), economies of scale are more significant when a consolidation of companies that have the same operations occurs and redundant positions are eliminated. ‘More specifically, the effect of economy of scale is based on the fact that fixed costs of production remain constant despite an increasing production volume. As a result, the cost per unit is decreasing with a higher production volume since the fixed costs can be allocated to a large number of units’ (Hofmann, 2004, p. 274, quoted in Karenfort, 2011). Moreover, mergers and acquisitions which suppose a combination of activities, can lead to cost savings associated to a decrease of the personnel, restructuring or closure of some production sites (Monin and Vaara, 2005).

Economies of scope can also be considered as a relevant factor while considering wealth creation for shareholders (Depamphilis, 2011). Economies of scope refer to reductions of the average
costs of the firm through an increase in the number of produced goods. In this case, it is cheaper to combine several product lines in one company than to produce them in separate companies (Depamphilis, 2011).

Furthermore, increase of revenue can be part of operational synergy (Homberg et al., 2009). A synergy of revenue represents the fact that a merged company generates more revenue than the two independent companies which could not be able to increase their revenue independently. These synergies can be created through the development of new activities or creation of new products. For instance, a firm may be interested in the acquisition of a competitor because it could allow selling new products in areas where the competitor has difficulties to generate sales.

Additionally, vertical economies are considered as operational synergies (Larsson and Finkelstein, 1999). Vertical integration leads to a deeper control of the production line, from a production to a distribution level. Moreover, economies related to the acquisition of intermediate products can be realized. Vertical integration also allows the realization of economies associated to a better coordination in the management of the different levels of production.

Finally, knowledge transfers represent a relevant part of operational synergy in mergers and acquisitions (Larsson and Finkelstein, 1999). Indeed, value can be created if there is a sharing of information. Moreover, it constitutes an opportunity for learning. According to Hitt et al. (2009), learning is relevant in the success of mergers and acquisitions. The success can be achieved through the ability of firms to learn from their partners and to include new knowledge in order to create new capabilities (Hitt et al., 2009). Furthermore, according to Ray (2010), economies of learning can be created. Indeed, a company can decrease its costs of production through learning which can appear under the form of effective production scheduling, reducing waste, improving team building and teamwork, preventing past mistakes and better quality.

Secondly, financial synergy can also result in the creation of value. These synergies imply reductions in terms of cost of capital (Larsson and Sydney Finkelstein, 1999). ‘The cost of capital is the minimum return required by investors and lenders to induce them to buy a firm’s stock or to lend to the firm’ (Depamphilis, 2011). Moreover, financial synergies represent the ability of managers to manage the capital in a more efficient way than capital markets (Black, 1989). Several ways can enable firms to achieve financial synergies (Larsson and Finkelstein, 1999). The first way is to invest in
another business so that the systematic risk of the firm’s investment portfolio is lower. The second way is to increase the size of the firm to allow the company to access to cheaper capital.

Finally, managerial synergy also plays an important role in the value of the merged company (Black, 1989). These synergies refer to looking for complementary competencies or changing unskilled managers (Larsson and Finkelstein, 1999). Generally, managerial synergies appear when the acquirer possesses more appropriate planning and monitoring capabilities than the target firm (Trautwein, 1990).

5.4 The lack of synergy

Synergy constitutes a significant motive to go through mergers and acquisitions processes. Nevertheless, it also represents an important cause of failure. Indeed, synergies are not often materially realized (Monin and Vaara, 2005). Most of the merged entities do not completely succeed in the creation of synergies. A reason could be that companies neglect important aspects during the merger or acquisition operation. Moreover, acquirers can make mistakes in the valorisation of the target company. In this part, we will analyze the different causes of the non-realization of synergies. We have distinguished three main reasons which are associated to negligence and lack of preparation, lack of due diligence and overestimation of synergies.

5.4.1 Negligence and lack of preparation

Lacks of preparation and planning in mergers and acquisitions processes can represent a considerable source of failure as they can lead to the non materialization of synergies. The attention given to the preparation of these operations must therefore not be neglected.

In the beginning of the process, the acquirer must identify the right target to acquire. As the acquirer has the choice between several target companies, the one which is the most appropriate and could make the merger or acquisition result in a success has to be selected carefully. In fact, the rate of failure tends to be higher if companies choose the wrong target (Hitt et al, 2009). However, most of the time, companies put too little weight on this phase. Indeed, the acquirer can be impatient to be done with the M&A process and therefore do things faster and not accurately enough. Consequently, it can lead to a wrong choice of the target firm and thus to the failure of the process.
According to Howson (2003), there are several stages to respect in order to choose the appropriate target. It is, first, important that the acquirer determines a clear strategy in order to see if it is compatible with the target. Then, it must develop a set of criteria according to the type of firms that it intends to look for. The purpose is thus to identify companies which correspond to these criteria and to select information about each of these firms. Finally, the potential future partners must be classified according to their performance and abilities to meet the strategy and objectives of the acquirer firm. If these different aspects of the selection phase are not respected, it could result in a wrong choice of the company. The risk of failure is, in this case, associated to the bad analysis of the target company, its environment and its strategic position.

To conclude, potential targets have to be properly and accurately chosen. Furthermore, as complementary capabilities can lead to the creation of synergies and help avoid failure, a fit has to exist between the acquirer and the chosen target firm (Hitt and al, 2009).

5.4.2 Lack of due diligence

The lack of knowledge and information about the target company can stem from a mismanaged due diligence process and result in a wrong representation of the company. According to Monin and Vaara (2005), many companies demonstrate a lack of knowledge about their business partner. Indeed, many firms do not pay attention to the due diligence process and neglect it as they consider it as a boring, expensive and time consuming process (Howson, 2003). Moreover, most of the companies think that the due diligence process requires to spend a lot of money in order to finally gather information about things they already knew.

It is also important to know clearly what due diligence is about. Due diligence represents a phase of the merger or acquisition process which must be carefully conducted. It constitutes the preliminary step to negotiations. During this process, the buyer evaluates the target from a commercial, financial and legal point of view (Howson, 2003). The purpose is to learn more about and understand the target company. Through the due diligence process, the acquirer aims to gather information in order to be sure that the target firm is what it ‘thinks’ it is as it does not want to bear any risks. ‘Due diligence feeds into the negotiations by identifying risks against which the buyer should negotiate some sort of protection’ (Howson, 2003, p. 3). After the process, if risks are discovered, a price reduction or a guarantee could be asked by the acquirer in order to compensate potential losses.
Besides, due diligence is not only about the financial analysis of the other company as it can integrate and take into account non-financial elements. On the one hand, due diligence takes into account a financial review of assets, liabilities, revenues, and expenses and includes a review of the financial statements (Epstein, 2005). On the other hand, it integrates non-financial aspects such as the research of an organizational fit, capability to merge cultures, and technological and human resources abilities and fits (Epstein, 2005). As underlined, the due diligence process includes elements related to cultural aspects. It allows to see if it is possible to integrate the cultures in an efficient way. In this case, due diligence refers to an analysis of the business philosophies, work practices, and leadership styles (Epstein, 2005). Additionally, due diligence allows to identify synergy benefits and can therefore help negotiate the price of the deal and avoid an overvaluation of the target, which can constitute a relevant cause of failure (Howson, 2003).

In conclusion, it is indispensable that companies invest time in the due diligence process in order to avoid misunderstandings. This process is also necessary in order to not face disturbing surprises during the integration process. It is clear that a good evaluation of the company is essential in order to avoid a wrong representation of the other company, however, it is only possible if the due diligence process is conducted carefully. The lack of due diligence can therefore constitute a reason of failure in M&A.

5.4.3 Overestimation of synergies

Many authors reveal that a significant number of companies overestimate synergies that can be realized at the end of the merger process (Subramanian, 2010). Expected revenues are especially overestimated. Consequently, some firms accept to pay a too high price for the target. However, the overestimation of synergies constitutes an essential source of failure in M&A (Sachwald, 2001).

Several reasons can explain the fact that the acquirer pays the other company at a too high price (Halibozeck and al, 2005). On the one hand, the willingness to overestimate the future earnings and total value of the target can be the consequence of an excess of optimism from the managers concerning the results of the operation. For instance, a company could demonstrate a high desire to acquire another firm, and the overconfident manager could let her or his desires influence the evaluation of synergies. Consequently, the manager could accept to pay a higher price than the
fair price. However, it can lead, at the end of the process, to the fact that the manager realizes that her or his expectations are not satisfied and she or he can be disappointed. On the other hand, the acquirer can suppose that one of the competitors wants to acquire the same target. It can generate concerns about loosing the deal. Managers can thus decide to overpay the target company in order to prevent the competitor from doing it.

Furthermore, it is quite difficult to have an accurate valuation of the target as the acquirer has to estimate the value according to the available information (Black, 1989). However, a mistake in the valuation of the target company can lead to its overestimation and thus to an overpayment. In order to avoid any overpayment, it is essential to find the ‘fairest’ price of the target company. According to Sachwald (2001), this price should refer to the value of the best expected performance of the target. In other words, the price should be fixed according to future synergies.

Additionally, in some mergers and acquisitions, the acquisition premium has been identified as playing an important role. ‘An acquisition premium is the price paid for a target firm that exceeds its pre-acquisition market value’ (Hitt and al, 2009, p. 2). The reason of giving a premium stems from the fact that synergies can be created after the merger. However, if the purpose is to create value, the premium must not be higher than the potential synergies. Though, the problem is that, too often, synergies are not realized.

Ultimately, it is essential to find a way to properly estimate the value of the target company as its wrong valorisation could lead to overestimations and overpayments. Moreover, if the price paid for the target company exceeds the value of the potential synergies, a destruction of value can be expected, leading to the failure of the M&A.

To conclude, realization of synergies constitutes a relevant factor in the success or failure of mergers and acquisitions. The idea is that the merged company creates alone more value than both independent companies. However, it is essential that managers of companies carefully respect each phase of the M&A process as their negligence could lead to a disaster as no synergies could be achieved.
5.5  Empirical illustrations

Synergies represent essential elements in mergers and acquisitions. If they are not materialized or missing, they can jeopardize the success of the merger or acquisition. In this part, we will focus on cases of failure which illustrate issues related to the creation of synergies in mergers and acquisitions. Two cases will therefore be presented, the first one concerns the merger between Bio-Mérieux and Pierre Fabre and the second one the merger between American Online and Time Warner.

5.5.1 BioMérieux-Pierre Fabre Analysis

The two pharmaceutical groups BioMérieux and Pierre Fabre decided to merge in 2000 and finally broke up in 2002. The failure of this merger can be associated to synergy issues as well as political issues. The political aspects of this merger will be studied, later in this thesis, in the appropriate chapter.

- Overview of the companies

It is first, essential to describe the history of each of these firms in order to get a better understanding of the context in which the operation occurred. Both companies have their own history and different reasons led them to merge.

BioMérieux was a multinational company founded in 1963 by Alain Mérieux, and headquartered in France. Alain Mérieux was the chairman and held the majority of the company’s shares. The group operated and had an expertise in the field of in vitro diagnostics for medical and industrial applications (BioMérieux Industry, 2012). On the one hand, it diagnosed infectious diseases by analysing biological samples. On the other hand, the group studied industrial samples (food, pharmaceutical and cosmetic products) or environmental samples (water, air, surface) in order to determine its microbiological quality. Alain Mérieux absolutely wanted the company to be preserved within the family (Monin and Vaara, 2005). He thus intended to transmit the management of the group to his son, Christophe Mérieux. Additionally, he did not want to let his company fall into the hands of greater multinationals.
Pierre Fabre group, as its name suggests, was created by Pierre Fabre in 1961. This multinational pharmaceutical and cosmetics company was situated in Castres, in France. It also represented the third largest French pharmaceutical firm. The group used its resources for the research and development of original molecules which were conducted within their laboratories (Pierre Fabre Laboratories, 2012). As the business was flourishing, Pierre Fabre decided to diversify his pharmaceutical products (Monin and Vaara, 2005). He made several acquisitions such as INAVA and Klorane in order to make the activities of the company grow. The main activity of the group was pharmacy, representing 50% of turnover. Cosmetic and homeopathy constituted the others substantial activities of the group. They respectively represented 42 and 8% of turnover. Pierre Fabre was also worried about the succession of his company. Indeed, this man was very independent and refused all the propositions from big pharmaceutical firms. According to him, the offers from external companies could destroy what he realized during the last years (Monin and Vaara, 2005).

- The merger

At the end of the year 2000, the two pharmaceutical companies officially announced their merger and their willingness to develop a new company, BMPF. In 1995, the chairmen of both companies had already attempted to negotiate but parity problems and difficulties to allocate the power made the deal fail (Monin and Vaara, 2005). However, the strong friendship between the two chairmen and their common desire to manage their problems of succession revived the merger process (Nathalie Halpern, 2002).

Consequently, Alain Mérieux and Pierre Fabre held respectively the function of chairman of the supervisory board and, chairman of the executive board (Monin and Vaara, 2005). Furthermore, Jean Luc Bélingard from Pierre Fabre Company and François Guinot from BioMérieux Company served both as general managers in the new group.

Both managers used the concept of synergy in order to make sense out of the merger for the others. The primary motive that the managers argued for was the ability to create synergies by combining the diagnostics skills of BioMérieux with the therapy skills of Pierre Fabre. This combination was named ‘theranostics’ by the two groups (Monin and Vaara, 2005). Its adhesion was easily accepted because of its seductive character. The fact that this motive was plausible and pseudo-scientific also helped communicate more easily the reason of the merger to external
stakeholders. Indeed, this pseudo-scientific motive was particularly convincing. Moreover, this concept reflected the vision of managers, especially Alain Mérieux who wanted to link diagnostic and therapy. The aim was thus to diagnose and then provide a treatment which is adapted to the patient.

The merger operation started in a pleasant atmosphere and was supported by the influential persons of the group. Moreover, several groups have been designated in order to manage the integration phase and exploit synergies. Nonetheless, many were surprised by this collaboration. Indeed, the activities of both firms (cosmetics, homeopathy, pharmacy and biotechnology) were quite different in an industrial, scientific and commercial point of view (Monin and Vaara, 2005). That is why the group carefully conducted the operation and did not want to submit organizational change in order to respect the operational identity of each of its activities. Furthermore, managers decided not to focus on negative synergies related to rationalization and restructuring. Each activity thus worked independently but the group tried to create some relations between these activities so that they could share resources if it was possible.

Then, during the year 2001, some conflicts emerged (Monin and Vaara, 2005). Pierre Fabre was not satisfied about the management of the group and therefore decided to be more involved in his work. He also accused Alain Mérieux not to be active enough in the company. At this moment, differences of vision concerning the future strategy and potential synergies between the two managers were perceived. At this time, conflicts between Mérieux and Fabre but also between Guinot and Bélingard started. Moreover, BioMérieux and Pierre Fabre continued to act as separate firms despite their alliance. These conflicts which resulted in the resignation of Jean-Luc Bélingard, progressively degraded the situation of the group.

Concerning synergies, the group had to cope with some problems (Monin and Vaara, 2005). After launching the first concrete project of integration, key persons like managers and scientists were conscious of the existence of a certain ambiguity, and doubted about the plausibility of the expected synergies. Firstly, the exact meaning of the concept theranostics was still hard to define. Secondly, key people were not sure that the merger would lead to concrete synergies in the short or medium term. They indicated that even if the motive was plausible, it was hard to realize financially (Monin and Vaara, 2005). The term theranostics thus became a scientific illusion. Furthermore, the views of both managers concerning strategic and organizational implications
were very different. Indeed, theranostics meant for BioMérieux’s representatives that the group had to sell its homeopathic and cosmetics activities. However, Pierre Fabre was entirely against it.

The year 2002 marked the end of the merger (Monin and Vaara, 2005). The managers of the group saw, little by little, the merger as a failure. Both companies found out that the synergy was not realistic and therefore stopped their partnership. It is obvious that the observed lack of synergy, the amplification of clashes and the resignation of Bélingard have led to the separation. Moreover, people who supported this concept of theranostics were gradually subjected to criticism. External stakeholders also doubted about the theranostics as real motive of the operation. Many thought that synergies, particularly the concept of theranostics, were only used to hide the real motives of the merger.

- Conclusion

After having analyzed the information concerning the merger between BioMérieux and Pierre Fabre, it turned out that the group did not manage to realize expected synergies. There was a significant divergence between the activities of each company. The major synergy that the group wanted to create concerned the combination of the diagnostic with the therapy activity. It was realistic in an industrial point of view, but it was impossible to realize in a financial point of view. The main cause of the non-realization of synergies and thus of failure, in this case, comes more from a lack of preparation and negligence in a synergy point of view. Indeed, the group did not devote enough time in the planning of the merger. It did not analyse deeply enough the environment in which BioMérieux and Pierre Fabre were operating. It did not study if each of their activities could fit together and if synergies could be concretely realized. Moreover, it did not pay attention to the risks linked to the strategy chosen. Indeed, only few studies were developed in order to estimate the feasibility of this theraneustics strategy.

Furthermore, it appeared that synergies advanced by the managers were not the real motives of the merger process. It represented more a way to give credibility to the merger and to hide the real motives of the operation. The real reason of the merger was a patrimonial one. The two chairmen, Alain Mérieux and Pierre Fabre, absolutely wanted to find a solution in order to make their companies continue to operate after their retirement. In sum, both managers considered the merger as a defensive action and this action was only linked to their personal and patrimonial
interests. Moreover, the size of the new group allowed them to avoid a takeover from competitors. The merger operation also helped postpone the problem of succession.

To conclude, it is obvious that synergy was not the real reason of this merger. That is why the group did not devote many efforts during the process in order to realize synergies. Consequently, the cause of this failure corresponded to the negligence and lack of preparation from both companies concerning the concrete creation of synergies.

5.5.2 American Online-Time Warner Analysis

It would be interesting to study the AOL-Time Warner’s merger taking into consideration the concept of synergy. The merger between the two companies took place in 2001 and was completed in the end of the year 2009.

- Overview of the companies

It is first, essential to present each of these companies in order to get a better understanding of the environment in which they operated. American Online was founded in 1985 by Steve Case and Jim Kinsey. It was a leading-edge web services company (AOL Inc., 2012). It became the largest and the most valuable Internet Company in the world. At its creation, the company was named Quantum Computer Services and was known for offering an online service, ‘Q-link’. Moreover, it developed the first instant messenger service in 1989. Then, in 1991 the company changed its name to become American Online because of an employee’s contest. It is also at this time that Steve Case took over the company as chief executive officer. Originally, customers of the company only had access to AOL content and e-mail. However, as the Internet knew a growing popularity, AOL authorized the Internet access to its clients in addition to its proprietary content. The mission of this company was thus to provide online information and services through personal computer dial-up modems (Applegate, 2002).

Concerning Time Warner, the company was created in 1989 through the merger between Time Inc. and Warner Communication (Faulhaber, 2000). On the one hand, Warner Communication was a leading film entertainment company. The firm was originally named Warner Brothers and referred to four Polish Jewish immigrants who created one of the major Hollywood film studios. On the other hand, Time Inc. represented a leading publishing company launched in 1922 by
Henry Luce. The new company created through this merger became a global leader in media and entertainment. In 1992, the function of chief executive officer was taken over by Gerald Levin. Moreover, the group was present in several activities such as cable television networks (e.g. CNN, HLN, Cartoon Network, HBO etc.), music and films production and distribution, books and magazines publishing (e.g. Time, people, Sports Illustrated, Instyle and Real Simple), and cable systems (Applegate, 2002).

- **The merger**

The world’s leading provider of online access and related services, AOL, and the world’s largest media company, Time Warner, announced their merger on the 10th of January 2000 in order to create the new group AOL Time Warner (Allemand and Oullion, 2005). For the managers of both companies, this operation was a ‘strategic merger of equals’ (Applegate, 2001, p. 130). The merger between AOL and Time Warner, considered as the most important in the history of the United States, was reported as the strategic alliance of the 20th century. This merger was considered as unique for several reasons (Faulhaber, 2001). Firstly, it was the greatest merger operation ever announced and consummated. One hundred and eighty three billion dollars represented the valued amount for the operation. Secondly, it was the first time that a merger between old and new media occurred. Moreover, the merger is still perceived as the most substantial Internet-related process. Each firm played a significant role in its industry; American Online offered its services to about 40% of US online, while Time Warner’s cable properties were transmitted to over 18% US cable households.

Furthermore, the activity surprised many people (Allemand and Oullion, 2005). Indeed, most of them thought that the start-up American Online would have been the target of the historical group Time Warner. However, the opposite occurred. It was American Online that acquired Time Warner. As a result of the merger, Steve Case became the chairman of the new group.

Each company saw many benefits in this merger. On the one hand, for Time Warner, it was the opportunity to enter in the world of the Internet as early as possible (Allemand and Oullion, 2005). It did not want to waste time to invent an online strategy. Consequently, it chose to be absorbed by a firm in order to access to the cyberspace and therefore promote its contents to users of the largest worldwide network. On the other hand, AOL could enhance, through this merger, the prestige of its web portal thanks to the rich content of its partner (Vernier, 2004).
Moreover, this operation enabled AOL to manage newspapers (Time), television channels (CNN, TBS…), cinema studios (Warner Bros), and record companies (Warner Music Group); and above all, the company could control the second American cable network. For these reasons, the firm accepted to pay Time Warner 71% more than its share price. For the initiators, it was also a way to allow consumers to watch what they want, when they want, and as often as they want (Allemand and Oullion, 2005). Moreover, the merger represented a marriage between television, edition and internet. It means that the consumer could watch any movie and was free to look at his or her mails and shop online by using the same screen of television. Finally, both managers were convinced that this merger made sense when they estimated the synergies which could be generated (Applegate, 2002). They strongly believed that their activities were complementary.

At the time of the merger’s announcement, the economy was defined as strong and the confidence of investors was perceived as high (Applegate, 2002). At this moment, the merger was estimated to generate over one billion dollars in cash, during 2001, through synergies. Moreover, after the merger, the merged entity knew an increase in its price per share. However, with time, the situation got worse. Indeed, world’s economy had to cope with a slow-down and AOL’s stock price declined from 72 dollar per share at the time the operation was declared, to 47 dollar on the 11th of June 2001, while Time Warner’s stock price dropped from 90 dollars per share to 71 dollars.

The group AOL Time Warner expected several synergies (Applegate, 2002). It distinguished revenue-producing synergies and cost-saving synergies. Concerning revenue-producing synergies, the group thought that it could seize the biggest revenue-producing opportunity by using its online distribution and sales infrastructure in order to raise advertising revenues. Then, AOL Time Warner was convinced that it could increase subscription revenues by cross marketing. This meant that AOL services would be oriented to Time Warner clients while Time Warner offerings would be guided to AOL members. The group also believed that cost-saving synergies could be realized. First of all, it thought that it could realize cost-savings in marketing. AOL and Time Warner had a lot of expenses in marketing but it was possible for AOL to save up to 200 million dollars per year by exploiting Time Warner distribution channels in order to make its online service known. Similarly, the group estimated that Time Warner could save up to 150 million dollars by developing its marketing in AOL online channels. Secondly, the group believed that it could cut costs by eliminating redundancies in corporate overhead services (e.g. finance, legal,
human resources) and business activities (e.g. data centres, call centres...). The group estimated that 100 million dollars could be saved, in 2001, by doing this.

Once the merger finalized, the group began to realize some synergies (Applegate, 2002). It announced that it would eliminate 2000 redundant jobs. Moreover, CNN News Group declared that it intended to lay off 400 employees. Therefore, the workforce was supposed to be reduced by 3%, it had to allow the company to save up over 300 million dollars in personnel costs. Then, the group recorded a small revenue increase percentage due to a 10% increase in subscriptions (from cable, publishing and AOL). Despite the economic slow-down, the group was motivated to exploit synergies and achieve 40 billion dollars in revenue in 2001. AOL Time Warner intended to launch several initiatives in order to leverage the group’s capabilities.

However, in 2009, the group announced the end of the merger. AOL and Time Warner therefore became independent firms. The results can clearly show the failure of this merger. AOL Time Warner, which represented 290 billion dollars at the time the merger was announced, only had a value of 55 billion dollars at the end of the year 2002 (LE Goff and Mouline, 2003). The group realized a loss of 100 billion dollars in 2002 and the debt constituted a significant part of this loss. It was considered as the greatest deficit ever observed in the US economic history. The main reason of this failure was the non-realization of synergies in the merged company. The group did not succeed in materializing all the expected synergies (Le Goffe and Mouline, 2003). For instance, HBO and CNN which fought for their independency have not had many relationships with AOL. It was also the case with cinema studios. Moreover, some synergies such as cross marketing were not observed (Vernier, 2004). Analysts also showed that it was difficult to forecast the value of the new company in a short term and a long term perspective (Applegate, 2001). Indeed, AOL was present in one sector of activity whereas Time Warner operated in several different industries. It was important to estimate the extent to which AOL and Time Warner respectively contributed to this merger.

- Conclusion

After having looked at the merger operation of the group more deeply, the main cause of failure in the merger of American Online and Time Warner turns out to be the non-materialization of synergies. The group did not manage to achieve expected synergies. The new company made many efforts in order to leverage synergies but it was not enough. The problem came from an
excess of optimism from AOL and Time Warner’s managers. Both were sure about the success of the merger and have overestimated the realization of the potential synergies. As a result of this, AOL paid Time Warner more than what was worth in order to acquire it. Another reason of the failure was the difficulty to valorise the new company. It was hard to estimate the value of the group after the merger. Consequently, it has also led to an overestimation and therefore an overpayment.
VI. LEADERSHIP IGNORANCE

6.1 Introduction

While addressing M&A activities, most of the researches indicate that a significant importance has to be given to the integration process. In fact, most of the mistakes that lead to failure are made during this key phase of the merger (Simpson, 2000 quoted in Kleiner and Nguyen 2003). Moreover, organizational factors such as leadership play an important role in term of integration of merging companies (Javidan and Waldman, 2009). According to us, issues encountered during the integration process have to do with a lack of, or even an inexistent leadership.

Furthermore, as the integration process is a key phase while considering a merger or acquisition, it has to be well managed. If it is so, it can enable two independent entities to work together in an efficient way, realize synergies and create value. However, it is not always easy to make two companies (or more than two) work efficiently. Missing leadership skills can generate negative stress, reinforce feelings of uncertainty, lack of commitment and increase the resistance to change among the workforce. This will therefore have a negative impact on employees’ productivity and on the new entity’s performance.

Through this chapter, we will underline and explain the reasons of failure related to the leadership concept. We will first explain what does the integration process mean according to us and study it in a leadership perspective. Consequently, issues concerning ineffective communication, unclearly articulated vision and neglected human capital will be addressed. Finally, it is important to notice that the aim of this chapter is not to determine who the leader is while speaking about M&A but to explain how the lack of leadership can make a merger or an acquisition fail.

6.2 Integration process

The main purposes of M&A activities are to create value and increase the overall performance of the newly created entity (Aamir, Hussain and Ur-Rehman, 2011). This value creation will be achieved through the realization of synergies. In order to materialize these synergies, companies have to work together in an efficient way. However, it is not an easy task. That is why an integration process, allowing the successful combination of the firms, has to be established.
The integration process represents the combination of two (or more than two) firms, in order to create one new entity. This process aims to make a full use of the strategic advantages of the merger or acquisition (Finkelstein, 2009). It therefore consists of all the things that have to be done by the merging firms in order to materialize synergies and make the created entity be more valuable and profitable than the sum of the independent companies. This process will, for example, help companies to align their processes and thus reduce the costs of the merged entity.

It is clear that the integration phase has a high importance as if it is well managed, it can allow an increase of the new entity’s value through the creation of synergies (Javidan and Waldman, 2009). However, if it is mismanaged, the materialization of synergies will not be possible and the value of the merged company will decrease. This will lead to the failure of the operation.

Additionally, as the aim of the integration process is to make companies work together in an efficient way, they will have to cooperate, coordinate their actions and in the same time, give weight to human resources’ issues (Finkelstein, 2009). It seems thus difficult to make this key process work. In fact, the integration process can be linked to organizational aspects of a company and more particularly to leadership. Indeed, it has to do with articulating a new and clear vision of the future of the merged company, establishing an effective communication, the ability to build trust within the organisation and the ability to establish direction and deal with people concerns. The integration process has thus to be well thought and well planned. It also has to be quick in order to show results fast. However, as it involves people and as it is about making them work together, it takes time. Moreover, as we truly believe that what really determine the success or failure of a merger or acquisition are people, the human capital has to seriously be taken into account.

Besides, while considering M&A activities, several elements represent the roots of a mismanaged integration process. We can count among them the fact that not enough time is dedicated to the quality and level of the process’ planning or to the analysis of the integration process. Other obstacles to the success of this process are directly linked to the lack of leadership. These barriers correspond to an unclearly articulated vision, undetermined goals and objectives, a lack of communication and neglected human resources’ concerns (Kleiner and Nguyen 2003). A significant importance must therefore be given to leadership aspects while envisaging to go through mergers and acquisitions processes.
6.3 Leadership

Many researches and studies have been conducted concerning the concept of leadership, key leadership skills, qualities and styles. Though, it is difficult and even impossible to give an accurate ‘definition’ of the concept of leadership. However, most of authors would agree on the fact that leadership plays a determining role while discussing about change. According to Bennis and Nanus (2004), for instance, leaders are the catalysts of change. Additionally, theories related to organizational change and transformational leadership stress the fact that the implementation of the unique vision of the organization by the leader allows the achievement of change (Bass and Avolio, 1994; Porras and Robertson, 1992; Hatch, 1993 quoted in Ashkanasy and Kavanagh, 2006). According to Kouzes and Posner (1987, p.30 quoted in Ashkanasy and Kavanagh, p. S81), in a situation of change, ‘leadership is the art of mobilizing others to want to struggle for shared aspirations’. Moreover, according to Bass (1985), leaders have to create a vision in order to promote change. In fact, leaders have an impact on the ability of people to accept situation of change. If employees believe in leaders and in what they do, they will accept their decisions more easily. Leadership can be therefore seen as a group process where leaders are able to motivate people to change.

Thus, while speaking about change, leadership aspects must not be neglected. In this part, we will address the indispensable leadership components that have to be taken into consideration while envisaging a merger or acquisition. We will therefore address the importance of the articulation of a vision, the necessity of developing an effective communication and considering the human side of M&A, and finally the importance of building trust.

However, before developing these aspects, it is important to point out that several studies have shown that mergers and acquisitions are stressful (Aamir, Hussain and Ur-Rehman, 2011). In fact, mergers and acquisitions operations play a critical role in the increase of uncertainty among employees. The stress stems from the combination of uncertainty, ambiguity and insecurity related to the situation of change. Stress has an influence on relationships between people, dynamics of business combination and it affects perceptions about the organization (Schweiger et al, 1987). It leads to a decrease in commitment, loyalty and satisfaction of the employees. Feelings of trust and honesty can be jeopardized and employees’ negative attitudes about change can be spread among the workforce (Appelbaum et Al, 2000). Stress and uncertainty linked to the situation of change thus represent barriers to the good management of the merger. It can lead to
the departure of talents as new opportunities are offered to them. It can also lead to under-performance, decrease in productivity and it can create competition among the workforce. Concerns and apprehensions of employees have therefore to be considered (Aamir, Hussain and Ur-Rehman, 2011). If leadership aspects are neglected it will jeopardize the operation by enhancing these feelings of insecurity and stress and by reinforcing employees’ concerns.

6.3.1 Articulating a clear vision

Through the M&A process, a new entity is created. A new vision has therefore to be established in order to give an image of what should be the company in the future. New values and objectives must also be determined in order to make employees be aware of the expectations and behaviours to follow. In fact, articulating a vision is highly important, according to Kleiner and Nguyen (2003, p. 449), ‘without it the future can turn into a series of activities that do not seem to lead to any particular goal or endpoint’. Moreover, according to Bennis and Nanus (2004), leaders have to be future-oriented and provide a clear strategic vision. This vision has to be realistic and credible in order to catch the attention of everyone in the organization. This reachable image of the future is the starting point for the creation of a common organizational purpose. Moreover, leaders, by bringing a clear vision, a sense of purpose and a direction will increase the individual commitment of employees. This will lead to the fact that people will find their role within the organization and feel involved.

An unclear or unrealistic vision therefore constitutes an obstacle to value creation as it can cause tension and make involvement among the employees decrease. Moreover, the communication of the vision and new expectations must not be neglected. More precisely communicating sense is highly important because it helps people understand the vision and thus fosters a common interpretation. In other words leaders must be able to translate an organizational purpose into meaning (Bennis and Nanus, 2004). To follow this aim, strong, various and expressive forms of communication have therefore to be developed and used (Stahl, 2004, p.4). Finally, as it is not easy to apply a new vision, it is important for leaders to walk the talk and show their involvement in order to allow an increase in the employees’ commitment and willingness to achieve the new organizational goals.
6.3.2 Communicate effectively

Communication plays a crucial role in the success or failure of mergers and acquisitions. In fact, uncertainty and speculation are created by the simple announcement of a merger or acquisition (Kleiner and Nguyen, 2003). Thus, if a solid communication is not established, rumours and gossips can quickly be generated. Indeed, the absence of reliable and formal information channels fosters the creation of these rumours within the organization. It results in the fact that negative signals tend to be amplified whereas positive signals tend to be diminished (Aamir, Hussain and Ur-Rehman, 2011).

Generally, situations of change generate stress due to developed feelings of losing control and helplessness. It results in a lower productivity and employees' dissatisfaction (Marks, 1999 quoted in Kleiner and Nguyen, 2003). In fact, an unclear or inexistent vision of the merger results in the employees' disengagement to their work as they are looking for information about the meaning and influence of the change on their jobs and careers. As an example, the announcement of the merger between Hewlett Packard and Compaq can illustrate the distraction of employees who were not paying enough attention to clients as they were obsessed with the idea to lose their job and they were focused on preserving it. It has led to the loss of customers of Hewlett Packard, who went to other competitors (Kawamoto, 2002).

Furthermore, beyond the internal communication, communication to customers and other stakeholders has to be delivered effectively. An effective communication with employees and external partners constitutes a key driver for the success of M&A operations (Ashby & Miles, 2002). Furthermore, it would not be right to believe that, during the process, everything is said and everybody is aware of what is exactly happening in the company. People have to be informed in order to not make them feel unsure about their future in the company.

Additionally, information has to be delivered to employees in different ways. Indeed, written communication such as memos, emails and newsletters are necessary but not enough. Managers have to go out of their boardroom and talk with people, gather information about their feelings. They have to communicate the required expectations and show where the merger will lead to (Ashby & Miles, 2002).
Moreover, it is also essential to develop an effective communication that will help show the right way to go and provide people with meaning in order to achieve the organizational goals. It is also important to facilitate the sharing of knowledge and information between the merging companies and all the different departments. Furthermore, ensuring the coordination of all the actions of the organization will only be possible through an effective communication (Bennis and Nanus, 2004). It is thus necessary to explain why it is important to work together in order to break the obstacles to the creation of a flow of information between the companies.

In conclusion, early and honest announcements of important decisions have to be given in order to increase respect and reduce feeling of uncertainty. It is also important that employees get informed during the whole integration process. A transparent change process and an effective communication are thus indispensable. Information has to be consistent and reliable in order to build trust among the employees and avoid rumours and doubts (Appelbaum et al, 2000). They also have to be up-to-date, as delays in communication can make employees anxious and hostile towards the operation (Kleiner and Nguyen, 2003). Moreover, information has to be given rapidly to employees at all levels of the hierarchy in order to reduce uncertainty. Finally, they have to be clear and precise in order to allow employees to answer their questions about the future. An effective communication will reduce stress and ambiguity linked to change by making people more comfortable with the situation. It will help avoid rumours and gossips and enhance the employees’ productivity and therefore the firm’s performance.

6.3.3 Human side of M&A

As we have already underlined in the chapter ‘Cultural Mismatch’, the human side of mergers and acquisitions is highly important. Moreover, we believe that what really determine the success or failure of a merger or acquisition are people. However, the fact that it is not possible to predict their reactions makes the deal more difficult. It is therefore essential, while facing such a change, to be proactive as M&A represent stressful situations that can generate feelings of fear related to uncertainty and unknown situations. A proactive approach and communication can help people feel more comfortable about the future and about their job. It can help not threaten the good work of employees.

Furthermore, emotional issues have to be taken into consideration. It is important for managers and leaders to show that they are aware of what people are going through, of the stress and
uncertainty that the merger or acquisition generates. They have to make people know that they care about them, that they understand what it means to be an employee during the integration process and during a merger or acquisition operation. Connections with people are highly important and it is essential to understand how employees feel about things, to know what they are interested in, what excite them and what their feelings, needs and frustrations are (Ashby & Miles, 2002). Acting like that can help the organization retain key people. In fact, after the announcement of a merger or an acquisition, job opportunities are offered to employees (Kleiner and Nguyen, 2003). If they are not sure about their job, employees will more easily accept these opportunities to leave the company and have a more secure job. It is therefore important to build clarity about employee’s future job and identify talents in order to reassure them and make them develop loyalty to the company.

Additionally, as we have seen earlier, cultural differences such as differences in philosophies, values or management styles play a major role in failure in M&A operations. Indeed, if they are not taken into account, they can lead to failure. According to Stahl (2004, p.5), ‘instead of melting everyone together, a leader must capitalize on the cultural differences between employees and try to diminish the psychological distance between them’. It is thus essential to facilitate internal learning in order to understand and adapt to one another and make the realization of synergies possible. Employees have to behave as members of the new created entity and not as members of the previous independent companies (Stahl, 2004). That is why we believe that leaders, catalysts of change, have to create a new culture on purpose in order to avoid the ‘us’ versus ‘them’ thinking which is really destructive. The merger between Chrysler Corporation and Daimler Benz can illustrate the negative influence of this kind of thinking. Moreover, it also shows that the departure of talented employees stems from the fact that they do not want to face and suffer from internal competition; but it also stems from the fact that their expectations are not satisfied. Indeed, for instance, Chrysler employees were charged to do basic tasks for which they were too qualified and too competent. In fact, the departure of key employees makes the merged entity be more fragile and can jeopardize the materialization of synergies (Camerer and Weber, 2003).

6.3.4 Building trust

According to us, no business can be made without trust. However, our research reveals that, too often, mergers or acquisitions do not remain on solid basis. Indeed, in many cases of failure, we have noticed that the real reason of going through such an operation is not advanced. If we take
the example of the merger between the two pharmaceutical companies Bio-Mérieux and Pierre Fabre, we can say that the reason advanced for the merger was not the real one. Indeed, the chairmen of the two respective companies announced that the reason of the merger was to create synergies but the real aim was to preserve the firms from a takeover by some big pharmaceutical groups (Monin and Vaara, 2005). The motivation of the merger was thus related to an issue of succession. From this stemmed a wrong choice of partner, a lack of preparation and negligence in a synergy creation perspective which, led to the failure of the operation.

Furthermore, announcing a wrong reason can have a negative impact on the employees’ perception of the organization. They will feel betrayed and it will be difficult to develop feelings of trust. It will lead to the fact that their productivity and involvement towards their job will decrease. They can also develop a kind of resistance to the situation. In order to avoid feelings of frustration, an environment where trust and integrity represent the pillars and which provides a harmonious balance within the organization has to be created. The respect of others’ ideas must emanate from this kind of environment and make people feel they can contribute (Ashby & Miles, 2002). In fact, words of managers and leaders have to go hand in hand with their actions (Stahl, 2004). They must walk the talk, otherwise it would be very difficult or even impossible to build credibility, trust and gather people to reach a shared vision and common goals.

### 6.3.5 Conclusion

In conclusion, it is clear that the integration process has a high importance while considering M&A operations. Time must therefore be dedicated to analyse and plan the integration process but also to establish clear strategic objectives. Moreover, leadership must not be ignored as it plays a crucial role in the success of failure of M&A. More particularly, it is indispensable to articulate a new and clear vision in order to gather people around a common goal. Clarity must also be provided around employees’ roles and around decisions taken by the company.

Besides, an effective communication is more than necessary. All the stakeholders have to be well-informed in order to reduce negative feelings of stress and uncertainty. Communication must therefore provide people with reliable, consistent, up-to-date and transparent information.

Additionally, it is obvious that the human side of the M&A must not be neglected. Indeed, people are those who determine the success or failure of these operations. Managers have thus to
go out of their boardroom, be aware of employees’ concerns and maximise their involvement with the help of an effective communication and clarity about the future. Furthermore, as we assume that no business can be made without trust, the real reason of the merger must be known.

Finally, being realistic, we are conscious that jobs will be lost and mistakes made; but showing empathy, communicating continually and listening carefully can help reduce the level of resistance and unhappiness and make the process work (Appelbaum et al, 2000). Ultimately, the key phase of a M&A, represented by the integration process, has to be well managed in order to allow people work efficiently and subsequently, realize synergies and create value for the new entity.

6.4 Empirical illustrations

In this section, we will introduce cases of failures in M&A that may be associated to the negligence of leadership aspects. Two cases will be presented; the first one represents the merger between Volvo and Renault and the second one concerns the acquisition of ABN Amro by Fortis. Through these cases, we will explain how an unclearly articulated vision and a lack of communication can lead to resistance, distrust and subsequently failure in M&A.

6.4.1 Renault-Volvo Analysis

In the chapter ‘Cultural Mismatch’, we have studied the reasons of the failure of the merger between Renault and Volvo in a cultural perspective. However, the lack of leadership also played an important role in this failure. We will thus address the consequences of a not well articulated vision and a poor or even inexistent communication on the non-realization of the merger.

- Merger’s context

If we go back to the context of the merger, as we have seen earlier, Volvo and Renault were negotiating at the end of the eighties. Moreover, we know that the nineties were characterized by a pessimistic market and by the Japanese invasion in the European automotive industry (Jannick, 1992). In fact, Schweizer the chairman of Renault’s supervisory board and Gyllenhammar the chairman of Volvo’s board of directors saw in the late eighties, that, in order to respond to the
threatening Japanese offensive and to ensure the survival and continuation of their respective companies, they had to be stronger. In other words, both chairmen saw before everybody else where the evolution of the automotive industry was going to. Their vision of the future was thus the main reason of their willingness to merge. However, in their leadership ignorance, they assumed and believed that what they saw seemed clear to everybody. Though, it was not the case at all, and it has led to the fact that people were stunned by the announcement of the merger in 1993.

Following the announcement, oppositions to the operation appeared in Sweden as well as in France. In France, for example, some managers considered that the merger was of no interest for Renault and employees expressed resistance to the operation. Concerning Sweden, the opposition was well more marked. Swedes advanced a national pride argument and refused the marriage with the French company (Abescat, 1993; True, 2000 and Jannick, 1992).

- **Unclearly articulated vision and lack of communication**

The pessimism emanating from the merger’s announcement stems, according to us, from the fact that people’s minds were not mature enough to accept this change. It can be explained by the unclearly articulated vision and the poor communication that have made the company’s future not well understood by employees, managers and shareholders.

First of all, the vision was not clearly articulated. It has thus not been understood by employees and shareholders. In fact, as the chairmen of both companies had a clear picture of the company’s future and of the industry, they assumed that it was clear for everybody. They never took into account the fact that it would maybe be not understood. It has led to the fact that the merger made no sense to employees, shareholders and managers. They therefore began to resist to the change.

Secondly, we have seen that communication with employees and external partners constitutes a key driver for success (Ashby and Miles, 2002). However, in this case, it seems like this indispensable communication has been neglected. Indeed, the chairmen of both companies failed to show “the right way to go” to employees and shareholders and to provide meaning in order to make the merger work. Furthermore, as Ashby and Miles (2002, p.37) would say, ‘the great ideas,
causes, and hopes will sit stagnant until somebody can communicate them’. It seems like it was exactly the case for the merger between Renault and Volvo.

Besides, the non establishment of a solid communication results in the fact that negative signals tend to be amplified whereas positive signals tend to be diminished (Aamir, Hussain and Ur-Rehman, 2011). We can observe this phenomenon in the Renault-Volvo’s case. Indeed, the shareholders of Volvo were not comfortable with the idea that Renault was a state-owned company, and the fact that the French government did not determine a specific date for the company’s privatization made things go worse (Abescat, 1993). It has amplified the reluctance of Volvo’s shareholders and the fear of Volvo’s employees to loose their identity. It was therefore difficult to create trust in this kind of atmosphere where information was not totally transparent. Furthermore, this situation has reinforced, in the Swedish side, feelings of loosing the company’s control. These feelings were also fostered by the fact that 65% of the new entity’s capital would have been owned by Renault whereas Volvo would only possess 35% (Fortin, 1993). Resistance and opposition stemmed thus also from the fact that Swedes perceived the operation more like a takeover than a merger. The resistance and opposition of employees, shareholders and management in place at Volvo have finally led to the abandonment of the merger in December 1993.

• Conclusion

In conclusion, this case shows that leadership aspects must not be neglected while considering M&A operations. First of all, articulating a clear vision is indispensable in order to make the others see a picture of the future. It is therefore wrong to assume that what is clear for us is clear for everybody else. Furthermore, the role of communication is crucial in a situation of change. In this case, we have seen that the lack of communication has led to feelings of losing control, distrust and uncertainty. Moreover, it has reinforced the resistance to change. Renault-Volvo’s case thus emphasizes how the leadership ignorance can lead to failure, which is here represented by the non-materialization of the merger.

6.4.2 Fortis – ABN Amro Analysis

Through this case we will address the downfall of Fortis’ bank, which is due to the acquisition of ABN-Amro. The mismanagement of the acquisition, characterized by a lack of, or even an
inexistent communication, but also by the underestimation of costs and risks and the context in which the operation occurred has led the company to failure.

- **Overview of the companies**

Fortis was created in 1990 from the merger between three financial groups; AMEV, a Dutch insurer, AG Group, a Belgian insurer and VSB, a Dutch Bank (La Libre, 2008). Fortis was thus a bank which also had activities in the insurance sector. Until 2007, the bank was profitable and became one of the twenty biggest financial groups in the world in terms of assets and investments’ management (La Libre, 2008). The year 2004 was characterized by the arrival of the new CEO, Jean-Paul Votron, who decided to internationalize Fortis (Galloy, 2008). His objectives were to increase the benefit per share by 10% from 2005 to 2009 and to make the part of the benefits generated outside Benelux increase from 15 in 2005 to 30% in 2009 (Duroyon, 2007). In fact, Fortis’ new CEO was an ambitious deal maker and his philosophy was to make, in the shortest time, as much profit as possible (Van Caloen, 2008).

- **The acquisition**

Motivated by his philosophy to make profit, he wanted to acquire ABN-Amro. His vision was to make Fortis become one of the most important bank and insurance company. He therefore initiated a consortium in which Fortis was part of with two other banks, the Royal Bank of Scotland and Banco Santander, in order to buy ABN-Amro. The purchasing of ABN-Amro, in October 2007, constituted one of the biggest deals in the bank-insurance sector (Le soir, 2007). However, after the acquisition some issues appeared and its mismanagement partly caused the failure of Fortis.

In fact, Fortis never gave information about what was happening in the company and after the acquisition, the communication was almost inexistent. The company was facing liquidity issues. These problems stemmed from the fact that the CEO and managers underestimated the costs of the acquisition. Indeed, at the moment of the purchasing, the economic cycle was at its highest level, it was therefore foreseeable that it would soon or later decrease implying a decrease in the value of ABN-Amro. They thus bought the company at a too high price. Moreover, they underestimated the risks linked to the operation and particularly the risks linked to the CDO’s (collateralized debt obligations) they held. They minimized their importance and influence on the
company’s value even though their decrease was foreseeable (Le soir, 2008 and La libre, 2008). Finally, even though analysts advised them to put an end to the transaction they concluded the deal and acquired ABN-Amro (La libre, 2008 and Delvaux and Gerard, 2009).

Being aware of the risks, it was not wise to let people in the unknown and not inform them about the company’s future. There was no internal communication; indeed, no communication was ensured between the different levels of the hierarchy and employees were not aware of the new group’s situation. Besides, there was no external communication toward customers and shareholders (Trends, 2010). The only information that the company gave was that everything was going well and there were no worries, no liquidity problems (Trends, 2012 and La libre, 2008). They have thus voluntarily hidden the solvability problems of the company.

Furthermore, the difficulties that the company was encountering were discovered by clients and shareholders through the media. In fact, Fortis did a capital increase that the purchasing of ABN-Amro was not supposed to involve (Trends, 2012). This situation created a climate of distrust. Customers therefore took their investments and money back and it emphasised the liquidity issues. Moreover, due to the lack of communication, when the company made announcements, they were perceived as not credible and no one believed in them (Trends, 2008).

It is important to underline that while considering a merger or acquisition, people’s trust is highly important. In this case, Votron has neglected this aspect. In his leadership ignorance, he maybe though that not taking into account advices and people’s feeling would not affect the company and that he could manage everything alone. However, not communicating the real financial situation of the company constituted a huge mistake that amplified liquidity issues and led Fortis to failure. Indeed, his way of doing and the lack of transparency and coherence affected people’s perceptions about the organization. It has led to a decrease in commitment of employees but also a decrease in satisfaction and loyalty of investors, customers and shareholders. For example, as the employees did not know what was happening in the company, they could not answer customer’s questions and therefore clients and employees felt uncomfortable (Trends, 2010).

- **Conclusion**

In conclusion, the failure of Fortis remained on financial aspects, such as the underestimation of costs and risks associated to the operation, as well as on leadership aspects. Moreover, in the
economic context in which the operation took place, it was not wise to decide to not communicate toward employees, shareholders and customers. It has amplified the atmosphere of distrust and has led to the fact that, afterwards, announcements were not taken into consideration as they were judged as not credible. Finally, the lack of transparency and coherence has enhanced the liquidity problems that the company was encountering. In order to rescue the company and stabilize the stock value, the Belgian state had to buy Fortis, and owned 99.93% of it (Petrovic and Tutsch, 2009). The bank activities of Fortis were then sold to the French bank, BNP Paribas and a big part of ABN-Amro was sold to the Dutch State. However, the insurance activities remained in Belgium represented by Fortis Holdings (Trends, 2008).
VII. POLITICAL ISSUES

7.1 Introduction

In this chapter, political conflicts between merger partners will be explained. In fact, the new created entity may have to cope with disputes between managers of the previously independent companies or between other persons from top positions who have some difficulties to share power. If political conflicts are present, the new group will certainly have to face resistance among employees. Moreover, a lack of equality within the group may exist. Consequently, power struggles may lead to a disaster and compromise the integration phase of the merger process.

We will first provide readers with a mode of understanding of the power concept. Then, we will distinguish the different types of power that can appear within organizations when a change occurs. Afterwards, we will approach conflicts occurring between the different parties of the merged company more deeply. Finally, we will address the balance of power principle which explains how a certain equality within the company can be established, and allows to give lines of direction to resolve political conflicts.

7.2 Power: Mode of understanding

Power is a complex notion and is, according to many authors, difficult to ‘define’ (Hardy, 1985). There were many controversies concerning its definition and use. This concept has been approached in several different ways in social researches (Clegg, 1989, quoted in Nordea, 2003). Moreover, organizational studies have applied different power theories in decision-making processes (Miller, Hickson and Wilson, 1996, quoted in Nordea, 2003).

In the beginning, social and organizational studies viewed power as ‘the potential ability of an agent to influence a target within a certain system or context’ (French and Raven, 1959, quoted in Boonstra and Gravenhorst, 1998, p. 100). Power is therefore used by a person in order to require someone else to do something that he or she (the initiator) desires. Additionally, in 1957, Dahl provided a definition of power which was widely rooted in most of organizational studies (Ailon, 2006). According to him, ‘A has power over B to the extent that he can get B to do something that B would not otherwise do’(Ailon, 2006, p. 771). However, this definition was considered as too simple and only indicated the negative aspects of power leaving aside the positive ones (Ailon, 2006). Moreover,
even if it remains the basic definition in a considerable part of the literature, it has been criticized, rejected, revised, and extended over years.

Then, organizational theories went further in the conceptualization of the notion of power. They first defined power as a resource by showing that this notion is something that people possess or do not possess but strive for (Nordea, 2003). More recently, several researches described power as something ‘relational’ or ‘constructed’ where the identities of the actors and the relationships between them are addressed (Nordea, 2003, p. 89). These analyses also considered power relationships in and around entities. Besides, they criticized the creation of power relationships and inequalities that may arise within the organization (Mc Kinlay and Starkey, 1998, quoted in Nordea, 2003).

Some authors were orientated toward a more general definition. Boonstra and Gravenhorst (1998, p. 99) described power as ‘a dynamical social process affecting opinions, emotions, and behaviour of interest groups in which inequalities are involved with respect to the realization of wishes and interests’. Besides, power and its use appear in a certain context (Nordea, 2003). According to the situation, it is determined in a different way. For instance, a willingness of equality, fairness, justice and democracy is observed between the parties in merger operations whereas a control or dominance situation is desired in acquisition processes (Nordea, 2003).

7.3 Different approaches of power

According to Boonstra and Gravenhorst (1998), power and organizational change are bound together. These authors have presented five perspectives about power dynamics in organizational change. It would therefore be interesting to give an overview of the different types of power that may be needed in some change contexts.

The first perspective has to do with authority and legitimates the power of actors (Boonstra and Gravenhorst, 1998). As its name suggests, the power position comes from the individual’s formal position (Boonstra and Gravenhorst, 1998). It means that the person concerned must possess a legitimate authority in order to execute positive or negative sanctions such as rewards or coercion. In sum, it arises from the organizational hierarchy which allows a person to influence the attitude of others and to modify the organizational structure. In this perspective, it represents top managers who require a change in the company and use their power position in order to
execute the change. Moreover, the interests of managers and shareholders are taken into account whereas employees are excluded in order to make decisions within the organization. This approach seems to fit to a situation where a company has to cope with a crisis and acting quickly is necessary. In terms of mergers and acquisitions, this form of power may also be observable. However, this kind of power is generally not used efficiently and may therefore lead to resistance.

In the second perspective, personal power is addressed. Managers need their personal power in order to carry out change within the organization (Boonstra and Gravenhorst, 1998). According to this approach, managers and consultants use their expertise in change processes in order to develop logical arguments and thereby inspire people. Generally, this type of power is appropriate in a predictable and structured environment where the problem is known and not too complicated. Personal power may be called ‘expert power’ or ‘referent power’ (Boonstra and Gravenhorst, 1998, p. 102). Furthermore, this power is associated to specific capabilities, skills, charisma, and experience of an individual. In this approach, power is defined as ‘the capacity to influence another person or group to accept one’s own ideas or plans’ (Greiner and Schein, 1988, quoted in Boonstra and Gravenhorst, 1998, p. 102).

Concerning personal power, Beer (1980, quoted in Boonstra and Gravenhorst, 1998) distinguishes several relevant sources of power allowing change agents to inspire people during change operations. First of all, competences and professional skills may be perceived as significant sources of power. They refer to expert power. Secondly, multiplying relationships in the company with powerful individuals is a way for change agents to make their power grow. Then, reputation constitutes another power base and may therefore increase credibility. Group support also represents a source of power. Indeed, ‘a group is much more powerful when it is cohesive, when its members agree on common goals and strategies, and when they support each other’ (Boonstra and Gravenhorst, 1998, p. 102). Finally, the control over resources and knowledge is also considered as a way to increase power. For instance, when a change agent provides customers with services in order to solve problems, she has a higher influence.

The third perspective is related to structural power. It focuses on the distribution of power within the entity (Boonstra and Gravenhorst, 1998). Besides, it concerns more the power of interdependent groups within the company than the individual power. According to this approach, several interest groups discuss in order to find an agreement about the management of the change operation. This approach of power is also called the pluralist view. The pluralist view
underlines that different groups and departments have to negotiate and find agreements in order to ensure the functioning of the company and its continuity. This power process shows the relevance of negotiation, conflict management, and resources sharing. Moreover, three elements can explain groups’ sources of power (Hickson et al, 1971, quoted in Boonstra and Gravenhorst, 1998). The first dimension represents the capability to deal with uncertainty. Groups that react efficiently to uncertainty are more likely to hold more power and improve their position in negotiation processes. The second element is related to the substitutability of the department’s activities of the entity. Departments tend to avoid substitution and try to have control over rare resources. The third dimension concerns the centrality. ‘Centrality refers to the power of a department that derives from the dependency of other departments and their significant role in the flow of work’ (Boonstra and Gravenhorst, 1998, p. 105). Finally, this power process seems to be more appropriate in politically sensitive contexts. If an organizational change implies several groups with opposing interests, it is important to initiate discussions in order to find an agreement about the goals of the change and the role of the different groups in the change operation.

The fourth perspective focuses on the creation of values and norms’ issue through management of meaning (Boonstra and Gravenhorst, 1998). According to this perspective, power is linked to cultural aspects. ‘Perceptions, cognitions, and preferences of individuals and groups are shaped by culture that prevents them from seeing alternatives’ (Boonstra and Gravenhorst, 1998, p. 107). Moreover, this approach describes power as ‘the capacity to shape reality and to perform somebody in such a way that he or she does what one wants without any need of explicit power’ (Boonstra and Gravenhorst, 1998, p107). In this perspective, managers play a more relevant role than others by making sense out of situations and by contributing to the creation of norms and values in the company. Managers are thus seen as powerful actors when they define the reality of others. Finally, this model seems to correspond to an environment where the expectations concerning the participation of all the involved employees are very high.

Finally, the last perspective emphasizes open dialogue and democratic conversations in order to influence the behaviours and views of each other (Boonstra and Gravenhorst, 1998). It takes into account all the parties existing in the organization. This approach aims to find a way to establish change within the organization by respecting in the same time the interests of both, persons and groups. In this case, while making decisions, team work and dialogues between all the potential actors are encouraged in order to carry out change and create a common view of a desirable
future. Finally, according to Boonstra and Gravenhorst (1998), it turns out that communication and dialogue are not very observable in mergers and acquisitions.

### 7.4 Power conflicts

Mergers and acquisitions represent major organizational transformation events (Buono and Bowditch (1989, quotes in Leroy, 2001). They involve risks that can compromise or affect companies’ life (Ketata, 2005). More particularly, the risk associated to power conflicts and conflicts of interest between partners is considerable. Indeed, it constitutes a significant ethical issue in mergers and acquisitions (Hitt et al, 2001). Moreover, power conflicts and conflicts of interest represent a significant cause of failure in mergers and acquisitions (Van Deemen, 2010).

Conflicts and social problems tend to appear during the post-acquisition phase, also known as the integration phase. The integration phase therefore requires that conflicts of interest between groups and individuals have to be solved (Shrivastava, 1986). This stage is particularly delicate and often determines the success or the failure of the company (Ketata, 2005). The integration phase is decisive and complex because it is at this time that major decisions are taken (Samuel, 2000). Combining two companies do not only mean adding turnovers and market shares. It is also a combination of ‘men’, working methods and cultures. During the integration, the transfer of personnel constitutes an important issue and may lead to significant conflicts (Shrivastava, 1986). Moreover, the buying company has to make decisions concerning the choice of the managers and the level of autonomy that the target company can benefit from (Ketata, 2005). This phase thus implies changes that can lead to unexpected reactions and generate conflicts.

Haspeslagh and Jemison (1991, quoted in Samuel, 2000) describe the integration phase as a process where the members of two entities learn to work together and cooperate in order to transfer their strategic resources. In this case, strategic resources represent a set of operational, functional and managerial competencies, and the different benefits held by both independent companies. However, the problem does not come particularly from this transfer of resources but from the way that managers develop an atmosphere which will foster this transfer.

In the case of a hostile merger or acquisition, the management team of the target firm is generally replaced at the beginning of the phase and power problems are therefore easier to solve (Samuel, 2000). In some situations, the change in leadership or management may be wrongly perceived. It
is for example the case if managers were very appreciated by the personnel of the target firm. However, in other situations, the new managers may be accepted and considered as ‘rescuers’.

The case of a friendly merger and acquisition implies a very different context as both partners decide together about the constitution of the new management team (Samuel, 2000). However, power conflicts may appear following the nomination of a particular manager. Moreover, it may sometimes be difficult to find a compromise between partners (Ketata, 2005). Consequently, both companies use their power in order to put pressure on each other in order to assert their preferences. It can then make uncertainty and anxiety increase among parties which do not have enough power and it therefore leads to future conflicts.

According to Samuel (2000), it is also important that the management styles of the partners fit together. An incompatibility between these management styles may lead to feelings of distrust and the level of employees’ commitment may therefore decrease. Furthermore, power conflicts may arise during the selection between two potential applicants for a specific position (Samuel, 2000). Indeed, it turns out that in mergers and acquisitions, the used criteria of selection of an applicant are not the same as usual. For instance, managers first decide to dismiss people who do not have seniority in the company or who are considered as too old instead of using information presented in the annual documents related to the evaluation of potential executives. In this case, managers make decisions in order to satisfy their own interests.

The integration phase is considered as a period of organizational turbulence (Samuel, 2000). It also represents a significant change for the employees of the new group. Moreover, the merger or acquisition may be considered as a shock and may affect their morale negatively (Shrivastava, 1986). They can be destabilized and frustrated following the announcement of the merger or acquisition as they are uncertain concerning their position in the company and their future life (Alaranta and Viljanen, 2004). Additionally, they can consider scenarios and imagine the worst. That is why they can resist to the change and conflicts will be generated.

Finally, managers have to fully adhere to the integration phase in order to guarantee the good functioning of the operation (Samuel, 2000). It is important that they foster communication within the merged company in order to achieve a reciprocal understanding from partners. Consequently, exchanges between members of the two entities could be facilitated. As we have seen earlier, communication plays a relevant role in mergers and acquisitions according many
authors. It is considered as a significant element in the management of crisis. Communication, if it is coherent, allows generating a feeling of trust among members of the merged group. Moreover, during this phase of integration, it is necessary that managers keep control of what happens in the group. Leadership thus plays a very important role in the integration phase. It may indeed help prevent conflicts of interest within the company.

7.5 The balance of power principle

In mergers and acquisitions, the concept of ‘balance of power’ is, according to us, very interesting (Nordea, 2003). It ensures that all the members of the independent organizations accept the operation. This principle allows the avoidance and prevention of power struggles and attempts of domination by a group over the other. It also implies a form of power as companies need to be sure that a certain equality is established.

Furthermore, the balance of power principle plays two additional important roles in mergers (Nordea, 2003). Firstly, it allows to obtain the support of the different parties during the operation. Secondly, it plays a role in decisions concerning positions and therefore allows the avoidance of power games.

Nevertheless, this approach may also be problematic for the reason that it can lead to inequality (Nordea, 2003). Two kinds of problems are therefore identified. On the one hand, it intensifies the national confrontation (Nordea, 2003). Indeed, it turns out that, in international mergers, members make decisions about positions from a national perspective. Consequently, a certain inequality is perceived between the different nationalities. Hence, conflicts of nationality appear in the relations between members. Developing the balance of power and creating equality between two firms from different nationalities is not an easy task for managers. They can have some difficulties to work and act in an objective way. Their way of acting and making decisions is expressed according to their nationality. Moreover, managers tend to maintain better relations with parties from their ‘old’ company because they have been more aware of their capabilities for a longer time. This can explain the reasons why managers pay more attention to the old members than to the others and why their nationality reflects their decisions.

On the other hand, this principle is in contradiction with other relevant principles such as the competence-based career development (Nordea, 2003). Indeed, by supporting this principle of
balance of power, the firms attempt to establish an equal merger or acquisition process for both partnering companies; and in order to achieve a certain equality of power between both firms, they develop some quotas. They therefore distribute the different positions according to political motives. However, competences allocated to different positions may not fit with these positions. The problem is that the organization relies on political aspects instead of focusing on competences, efficiency and productivity. Consequently, this balance of power principle may lead to inequality within the organization. In order to ensure efficiency within the company, it is thus important for the new merged group to allocate jobs to individuals according to their abilities and not according to quotas or nationality.

In conclusion, this principle can be efficient in order to prevent conflicts and disputes within the company. However, it has some limitations. Indeed, this approach is very useful in a short term perspective but it is not effective in a long term perspective as it may lead to inequality within the organization.

7.6 Conclusion

The mergers Volvo-Renault and Daimler-Chrysler can serve as examples to illustrate the problematic of power conflicts and non equality. In the case of Volvo-Renault, the operation was not accepted by the employees as it was not considered as equal since Renault would have had more shares than Volvo in the new organization. Moreover, the company had to cope with the opposition of Volvo’s shareholders because Renault was a state-owned company. The support of the stakeholders was not obtained as they perceived the merger as a takeover. This situation led to the abortion of the merger. The case Daimler-Chrysler underlines the consequences of unequally shared power. In fact, the operation was announced as a merger of equals, but it was only in order to establish trust and avoid resistance within the organization. In fact, this merger of equals was a myth as the willingness of Daimler to dominate turned to be more than obvious. It has led to the departure of key persons and a deteriorated atmosphere within the merged entity.

To conclude, power struggles represent an important source of failure in mergers and acquisitions. The concept of ‘equal merger’ is thus rarely conceivable. Indeed, the balance of power is modified as a result of the change that the operation brings, and conflicts may therefore be observable. Moreover, there are difficulties to allocate responsibilities between individuals.
Besides, power may be held by many interest groups including CEO, top managers, employees and other groups of interest. All these members play a significant role in the organization and may, through their power, disturb the environment of the company. The purpose of these actors is to manage and influence change with the help of their power. However, the use of power may lead to conflicts of interest between managers and also resistance among employees.

Finally, the principle of ‘balance of power’ emphasizes the importance of sharing power between the different groups in order to establish a certain equality and stability within the organization. Moreover, in order to avoid some conflicts, communication is considered as the key. Besides, it is important to support open communication, encourage employees and allow them to take part in decision-making processes so that they can continue to be engaged and they can keep the morale up.

7.7 Empirical illustrations

Power struggles may constitute a significant reason of failure in M&A operations. Disputes among managers and employees may lead to a situation of inequality within the merged organization and result in the collapse of the process. In order to illustrate these issues, we have decided to analyse HP-Compaq and BioMérieux-Pierre Fabre cases. These cases of M&A will allow us to demonstrate how equality and stability are relevant in mergers and acquisitions and how their absence may be problematic in the merged entities.

7.7.1 HP-Compaq Analysis

Hewlett-Packard and Compaq decided to merge in 2001. The merger between Compaq and HP was considered as the largest one in the technology sector’s history (Aberdeen, 2004).

- Overview of the companies

The story of the American multinational company Hewlett-Packard, more commonly known as HP, started in 1938 when two graduated of Stanford in electrical engineering, William Hewlett and David Packard, developed their own electronic product in a garage (Hoopes, 2005). Then, both individuals decided to make formal their business and finally concluded a partnership called
Hewlett-Packard. In 1999, Carlton S. Fiorina took over the company and assumed the role of CEO and president of HP. In 1997, the group HP recorded an amount of 42 billion dollar as annual net revenue and was considered as the second largest information technology firm in the world (Abeerden, 2004; Hoopes, 2005). The group developed several products (Hoopes, 2005). Originally, the firm manufactured audio oscillators. Then, it launched its first computer in 1966. Afterward, it continued to produce items such as the scientific hand-held calculator in 1972, its first personal computer in 1980 and the LaserJet printer in 1985, which was considered as its most successful invention ever.

Concerning Compaq, the company was founded in 1982 and established in Houston (Hoopes, 2005). Three senior managers of Texas Instruments, Rod Canion, Jim Harris and Bill Murto, decided to resign from their firm in order to develop their own business (Loranger, 2000). They each invested 1000 dollars in order to create their firm but it was not enough. So they asked for help from Ben Rosen, president of a venture capital company. The group was also named Compaq Computer Corporation and was specialized in computers’ production (Agrawal, 2010). The name of the firm has its origin in the words compatibility and quality. Moreover, it was considered as the largest computer producer in the world. Michael Capellas was elected as CEO and chairman of Compaq in 1998. The first product created by the company was a portable personal computer, capable of executing the software already developed by IBM PCs (Loranger, 2000).

- The merger

Before the announcement of the merger, at the end of 1990, the two companies had to cope with three major elements: the information technology downturn, a tough competition and the conversion of hardware into a commodity (Carlock et al, 2002). This is why it was difficult for both firms to consider improvements without considerable changes. Viewed from this perspective, the merger between the two firms constituted a good decision for both CEOs.

The merger was thus announced by Fiorina on the 3rd September 2001 (Hoopes, 2005). Twenty five billion of dollars represented the amount of the acquisition of Compaq by HP. The merger proposition emerged from a phone conversation between Fiorina and Capellas at the end of June 2001 (Hoopes, 2005). Originally, the goal of this discussion was to talk about a possible license
agreement. However, throughout the conversation, they both changed the topic and started to discuss about a competitive strategy. Then, the idea of a merger was debated.

Through this merger, the objectives of Compaq were to expand its company, enhance the economical context of its computers and accelerate the supply chain velocity (Stachowicz-Stanusch, 2009). The aim for HP was to reinforce its position on the market by acquiring Compaq’s products. It was also the occasion to save Compaq from a difficult financial situation. According to Hoopes (2005), it was the best thing to do in order to differentiate their companies and make them become more competitive. In fact, both companies were suffering from price wars in the computer sector.

However, just after the merger’s announcement and before its approval, power conflicts already occurred (Carlock et al, 2002). Some opponents contested the deal. Indeed, HP Company’s heirs, who represented 18 % of the firm’s shares, decided to vote against the merger. Walter Hewlett, a family member and a HP board member, considered as their leader, supported them in their opposition. They thought that the operation could destroy everything their father has created, and that it did not reflect the values of the company. The CEO, Fiorina, was very surprised by this resistance and attempted to justify the merger to analysts. After having advanced a date for the vote, HP family members spent a lot of money on advertisements and mailings to shareholders in order to influence their vote on the merger. Family members used their power within the company in order to make sure that the merger would be cancelled. Most of consultants and investors supported their point of view. Ultimately, the operation was endorsed by a small margin. The narrow margin was between 0, 5 % and 3 %. In fact, an institutional investor of HP, the Deutsche Bank changed its ‘mind’ concerning the vote and finally voted ‘yes’ for the merger at the last minute. As a result of that, Walter Hewlett attempted to prosecute HP by thinking that something illegal led to the success of the merger. However, he failed and therefore lost his position in the HP board. According to Carlock et al (2002), it was one of the most significant merger conflicts ever realized. Finally, Fiorina, CEO of the merged group, pursued the integration of the merger.

Some investors and employees of both firms also doubted about the merger (Hoopes, 2005). Some people had the impression that combining the two firms would lead to have a bigger group with bigger difficulties, rather than a group which would reach an increasing growth. Some other thought that competitors would attempt to interfere in the company and to get information and
answers from providers and customers in order to change their product lines (Hoopes, 2005). Others wondered how HP could have the support of Compaq’s employees if Compaq’s logo was eliminated. Finally, some persons thought that it was not possible to merge two large companies and their employees without any difficulties.

Following all these oppositions, Fiorina tried to justify the merger (Hoopes, 2005). She said that the operation could allow the elimination of rivals in an oversupplied computer market. The merger would also make the market shares of HP increase and therefore the size of company’s service unit would at its turn grow, which will enable the group to compete with a fierce player, IBM. Furthermore, Fiorina was convinced that the operation would allow the development of a full-service technology company. The company could therefore produce both PCs and printers and develop complex networks. According to Fiorina, the merger was also the occasion to save costs in marketing, advertising and shipping and to maintain the two firms’ revenues. Fiorina wanted to make people who were sceptical about the purpose of the merger realize that the main motive of the operation was to reach a competitive positioning. For those who thought that the merger was not in line with the HP way, Fiorina emphasized that the HP way has always concerned change and innovation. Consequently, it was, according to Fiorina, the values of HP’s culture that confirmed the merger.

After the merger, HP encountered some difficulties (Media Matters Action Network, 2011). Indeed, the group lost market shares and did not succeed in raising its profit margins. Moreover, it did not succeed to materialize synergies. Most of the arguments advanced by Fiorina had not been achieved. For many, the merger gave no results and Fiorina was thus considered as responsible of this disastrous consequence. In 2005, HP’s board requested her to quit the group for her inability to improve its performance. Just after she left the company, the shares of HP recorded an increase of 6, 9 % on the New York Stock exchange.

Besides, it turned out that Fiorina was not completely honest concerning the motives advanced in order to merge. Indeed, it has been discovered that Fiorina was in a relationship with the director of Compaq twenty years earlier, and that it was maybe her real motive for going through the merger. We can thus assume that the merger was guided by her personal interests. This situation has enhanced people in their opposition and has created a climate of distrust. Additionally, the company abandoned its PC’s activity. This is quiet ironical as HP acquired Compaq in order to precisely possess this activity in order to achieve synergies.
• **Conclusion**

To conclude, this case illustrates the problematic of power conflicts while considering a M&A. Just after the announcement of the merger, shareholders and employees of both companies immediately showed their disagreement about the operation. This opposition was also reinforced by the family members of HP who highlighted the fact that the merger was in contradiction with their values. At the same time, Fiorina, CEO of HP, disapproved their point of view, which has led to a fierce battle between her and HP’s heirs. It was the most powerful conflict ever occurred between two giants of computer science. Even if power struggles were closed to make the merger fail, it was ultimately approved by a little margin. However, according to us, the deal failed as it was not accepted by a significant part of the stakeholders and as it has not led to the materialization of synergies. Moreover, resistance among employees, conflicts among managers and the board of the company could be observed. Through this merger, we can therefore see how power conflicts can lead to failure. It is thus important for companies, while considering M&A operations, to take this aspect into account in order to avoid adverse consequences.

7.7.2 **BioMérieux-Pierre Fabre Analysis**

The merger between BioMérieux and Pierre Fabre has been studied in a ‘synergy’ point of view earlier in this thesis. However, in this part we will study this merger in a political perspective. The operation took place in 2000 and the announcement of the separation was made public in 2002.

• **The merger**

At the end of the year 2000, the two pharmaceutical firms announced their intention to merge in order to establish the new group BMPF. In 1995, both companies had already tried to find an agreement in order to merge but it did not work as the two managers did not succeed in balancing their power (Monin and Vaara, 2005). At this moment, we could already observe power conflicts between the two managers who could not find a solution in order to share power. However, they came to a new agreement as they had a strong desire to solve their problems of succession (Halpern, 2002). The two chairmen therefore established governance based on power sharing in order to avoid the previous problems.
In the new merged company, Alain Mérieux and Pierre Fabre assumed respectively the position of chairman of the supervisory board and chairman of the executive board (Monin and Vaara, 2005). Additionally, the roles of general managers in the new group were held by Jean Luc Bélingard from Pierre Fabre and François Guinot from BioMérieux.

Both managers highlighted the role of synergies as the main motive of the merger (Monin and Vaara, 2005). However, it turned out that the real motive of this operation was not related to synergies but it was associated to patrimonial issues. Indeed, through this merger, Alain Mérieux and Pierre Fabre wanted to make sure that their firms would continue to operate after their retirement. The merger was thus an excellent way to postpone their problem of succession. For managers, it was preferable to hide the real motive in order to seem more credible for the other stakeholders.

This merger was defined, by both managers, as an equal wedding between two consenting partners (Monin et al, 2005). They thought that, by presenting the merger as equal, it would be considered as more legitimate by stakeholders and it would be easier to establish. Indeed, the equality argument allowed to make the merger legitimate to external stakeholders who were, at first, opposed to the operation. The concept of equality also allowed to solve in an easier way the problematic of identification and evaluation of partners’ contributions. Finally, it helped not emphasize issues concerning the management of the company.

Clashes started to appear in 2001 (Monin and Vaara, 2005). Firstly, the management in place did not satisfy Pierre Fabre. That is why he decided to be more involved in his job. Moreover, he accused Alain Mérieux to not be active enough in the firm. Indeed, Mérieux was often absent. At this time, we could already discern differences in the vision of both CEOs concerning the future strategy and potential synergies. Moreover, disputes between Mérieux and Fabre and between Guinot and Bélingard started to appear (Monin and Vaara, 2005).

Then, some employees noticed a certain inequality within the organization and therefore doubted about the credibility of the equal merger (Monin et al, 2005). Indeed, managers coming from Pierre Fabre’s group had the feeling that there was inequality within the company. According to them, people from BioMérieux were more dominant than them. They felt like they were controlled by BioMérieux. Moreover, Alain Mérieux committed blunders (Monin et al, 2005). Indeed, by presenting the organizational structure, he mentioned a vice president totally
unknown by Pierre Fabre’s employees. It therefore led to bad consequences and contributed to the degradation of the social cohesion between partners. Besides, these clashes had as a result, the resignation of Bélingard in December 2001, which progressively degraded the situation of the company.

Finally, both companies decided to break up in 2002. The CEOs were both conscious that the operation was a failure (Monin and Vaara, 2005). They decided to stop the merger for several causes. Among the reasons of the separation we can quote the non materialization of synergies, the amplification of the conflicts and the resignation of Bélingard.

- Conclusion

In conclusion, this case highlights power conflicts occurring in some mergers and acquisitions. It also illustrates the feeling of injustice which results from the violation of equality within the organization. The merger was supposed to be equal but it was finally not the case. From the beginning in 1990, power was the cause of the merger’s failure. It was also the case during their second attempt to merge in 2000. Both managers did not manage to find a compromise for power sharing and it therefore led to the collapse of the operation.
VIII. RESEARCH CONCLUSION

It is more imperative than ever before for companies to maintain and sustain a competitive advantage in today’s dynamic, global market place. Indeed, mergers and acquisitions represent a fast and efficient way to enter new markets and acquire new competencies and are increasingly being used by companies in order to reinforce and maintain their competitive position in the market place. However, our research reveals to us that their success is by no means assured as the majority of them fail.

Through our research we have come to identify four sources of failure for a merger or acquisition. When each of these components individually or together is mismanaged it results in failure. The four arenas of mismanagement, according to our study, that result in failure are: culture, synergy, leadership, and politics. We can see these four aspects as the pillars of a merger or acquisition and if either one of them is weak, the structure of a merger and acquisition disintegrates, resulting in failure. Each arena of the above mentioned four have within it constructs that need to be taken into account for a merger or acquisition to transition successfully.

Examining the cultural aspects, two levels of cultures are integral to a successful merger and acquisition, one being national and the other being organizational. From a cultural perspective, the mismanagement stems from the negligence of differences and incompatibilities at both levels in the culture. These, then, lead to cultural conflicts and clashes and ultimately contribute to failure.

Besides, the non materialization of synergies also constitutes an essential reason of failure in M&A. The fact that some companies do not manage to realize synergies may be related to several factors. These factors can be traced back to procedures and processes before the M&A actually begins. The multiple factors at play, may include but not be limited to, lack of research, overestimations, lack of due diligence, represent potential sources leading to failure of synergies.

In terms of leadership, the mismanagement stems from an unclear articulation of the company’s vision, poor communication, failure to build trust and neglecting the resource of human capital. These attributes are at the heart of the integration process especially in mergers and acquisitions. If these processes are well managed, it can add greatly to the successful combining of companies.
Leadership must therefore be well informed, engaged, hands on and able to effectively and efficiently deal with the challenges, facing the particular M&A at hands.

From a political perspective, conflicts of interest between partners may be considered as a source of failure. Managers of merging companies may have some difficulties in finding a compromise and sharing power within the new organization. Consequently, one of the companies could emerge or be considered as dominant by the other one creating a sense of inequality within the group that may lead to further discord. An agreement between companies must thus be found in order to avoid a collapse of the operation.

Through our research, we also identified other issues that might be relevant while envisaging a merger or acquisition. First of all, our research has revealed that time plays a critical role in the process of merger and acquisition. There is a long passage of time that elapses from the initiation of the M&A to its final execution. Strategies at times if not evolving with the changes in the internal and external environment, may become redundant and as a result inapplicable to the current business environment.

Secondly, our research also highlights several instances where several aspects simultaneously led to the failure of M&A. As in the case of Volvo and Renault political, cultural and leadership aspects contributed to a failed M&A in addition to the other factors at play.

Furthermore, there is a lack of authenticity in the idea in which the merger or acquisition is born. What we mean is that the reasons behind the merger and the acquisition are not true or honest. To further elaborate, the reasons for the mergers and acquisitions do not match the business situation at hand. For example, the real need for a merger or acquisition may be to gain a better competitive advantage, instead the merger or acquisition may be happening for tax saving purposes. In this type of scenario the real need which is to gain a competitive advantage, becomes out of focus. For instance, instead of focusing on marketing activity to better enhance a product’s visibility, the focus turns to tax savings. Thus, there is a failure in intent and there is a lack of authenticity on purpose. This is also why a merger or acquisition might fail.

Moreover, in a significant number of cases, the economic aspect is emphasized neglecting other relevant aspects. Our study reveals that a substantial mistake in M&A remains in regards to negligence in dealing with human capital. In fact, combining two companies is not only about the
bottom lines but holistically considering political, leadership and cultural aspects. When companies are only concerned with the bottom line they fail to consider synergies that may not materialize between the two organizations and that the merger and acquisition as a result may fail.

Finally, it is important to notice that while other aspects leading to M&A failures may exist, we have chosen to focus our research on synergies, culture, politics and leadership. This choice stems from our own perspectives and backgrounds. For instance, the programme that we have followed ‘Leadership and Management in International Context’ influenced and guided us in what we perceived as relevant. It has also allowed us to study mergers and acquisitions from different perspectives.

Besides, if we look at the four areas of mismanagement that we have analysed, three of them, which are the culture, leadership and political aspects are directly linked to leadership issues. Consequently, we may think that it is more than necessary for companies to question their leadership while planning to go through mergers and acquisitions processes.

Furthermore, we can look at a merger and acquisition as at a marriage. It is a marriage in the business world, and just like a marriage may end in divorce, a merger and acquisition may result in failure. In fact, along our research, we have come to understand that at an individual level, it is also essential to take leadership aspects into account. Indeed, in a marriage for example, differences in cultures and vision, lack of communication and trust, and power games may compromise its well functioning. Therefore, we may believe that leadership is the key of a successful alliance.
IX. LIMITATIONS AND VISION FOR FUTURE RESEARCH

The findings of our research underline the relevance of the consideration of culture, politics, synergies and leadership while planning to go through a merger or acquisition process. We consider that our research can serve as a good introductory ground work for people who want to go deeper and expand into the research on mergers and acquisitions. However, one of the limitations can be that we are viewing mergers and acquisitions through our own perspectives and so we are viewing the phenomena through the perception of the ‘glasses’ that we wear. As this is our perspective it would be interesting to find out what another researcher perspective may be.

Moreover, our research and perspective is more theoretical and less practical having not been physically present through the process of a merger or acquisition as an employee or as a leader. Consequently, it would be interesting to see how, a leader versus an employee, both that have been through one of these experiences, relate to the process of a merger or an acquisition. Furthermore, differences between a merger and acquisition may be also a good further research area to explore.

Finally, this research may be relevant to companies that are planning to go through a merger or acquisition process as they can gain insight to the process through our study. Moreover, while this research may not provide a solution, companies may be able to relate to it.
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