Strategic Issues Relating to Corporate Mergers and Acquisitions for Small and Medium Companies -- A Thoughtful Analysis from the Viewpoint of Challenges of Changes

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The challenges in the new millennium appear to be threatening to many small and medium scale businesses due to accelerated competition and abrupt changes in the business compositions. From the late of the last century to this new millennium technological changes have made a legendary revolution that influenced and reshaped the entire global business. Changes are very abrupt, unpredictable and surprising in nature as the large companies have been moving with very stronger strategic plans. Product life cycles have become sizably shorter than before just to beat the competition. As a result small and medium scale companies seem to be in a very intricate situation as they lack adequate resources to back up the continuous need for research and innovation. At this point, making synergy by way of appropriate mergers and acquisitions might produce sustainable results for them. Although terms 'mergers and acquisitions' are used sometimes as synonymy for each other, however they have slight variation in interpretations. Shapiro and Babirer (2000) stated, acquisition means "the purchase of one firm by another" and "merger means an agreement between the boards of directors of two companies to combine". While there may be agreements between more than two companies to turn into one, may be called a 'mega-merger. It can be logically argued that grouping among the companies through mergers or acquisition can provide them with stronger economic and strategic power to move in line with the fierce competition.

However, since most of the companies run on traditional business norms and practices and they may not have the appropriate knowledge and experience as on what basis they approach one another to combine businesses. Further, enormous qualitative and quantitative issues are involved to take a really gratifying decision to ensure a proper understanding, unity and solidarity. Evidences are there where two companies ran dialogues over the months to unite themselves but failed finally on a very silly point that caused disagreement. This may have resulted the abuse of time, efforts and energy on the part of both having finally a purely disappointing outcome. Financial expertise seems to be an insignificant issue as compared with other elements that are needed to consider for making a successful drive in the mergers and acquisition process. Most important element to first take a merger or acquisition decision is to get to know each other by way of knowing behavioral and corporate characteristics of the

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companies and of course the long term business reputation and affiliation with the customers. Characteristics of companies are highly heterogeneous and the example of two truly identical firms in terms of business and corporate behavior is seemingly absurd. Nevertheless, good attempts with noble causes could produce sustainable results and merger could serve an excellent instrument to turn that reality.

1. Introduction:

Civilizations have now been facing human-made troubles that past generations never had such acute experience except the forms of natural calamities. Industrial and market rivalry, propensity to create artificial demands for own goods and services, portfolio investments, leading to critical market imperfections. Firm-specific characteristics have become more strategically aggressive, manipulative, attack-driven just to create self-sustainability in a highly competitive marketplace. In the process of this skyrocketed battle and 'market-muscle' demonstration, many small and medium sized firms, once which had conducted profitable businesses later became sick from market malnutrition. Some big firms have become bigger by acquiring similar companies or by making mergers or mega-mergeers and virtually thrown away some small and medium sized solvent firms from this circle. As a result, many productive entrepreneurs lost their whims of motivation, many skilled employees lost their long-run jobs, however, more importantly, their glorious future of successive productivity and growth would have been buried or swept under the carpet. While at the same time, due to missteps, wrong calculations, misunderstandings, lack of flexibility, scarifying mentality and open-minded transparency, some countable 'big-players' merger efforts became ruined.

Merger seems to be a highly sensitive and jointly productive corporate decision making opportunity that usually suffers from optical illusions or mirages that leaders of two firms do not see at the time of their hot negotiation stages or even at the time of their final decisions. Therefore, as an obvious result many large firms showed utterly failed experience in their merger efforts which they first implanted to make corporate synergy to beat the competitors in the marketplace. Many empirical studies showed the importance to consider more concentrations on issues relating to future consequences of ‘merged operation’ than initial settlement of mergers. This is because different corporate attitudes toward operating style, communication strategies, leadership criteria, productions and services strategies, capital outlay, stockholders’ interests, and stakeholders’ expectations are unique for each firm under the merger decisions. Radical changes are quite absurd to reach a common position while conflicts of interests may seriously jeopardize the broad objective of mergers and/or acquisitions. Like many families have
been devastated and crushed by way of divorce or separation between the spouses and the kids’ lives thrown to the broiler of uncertainties or swept under the shadows of crises as an obvious outcome of their disagreements and conflicts which become more reflective than the earlier stages of their marriages.

2. Definition of Mergers and Acquisitions

“The terms ‘merger’, ‘acquisition’ and ‘takeover’ are all part of the mergers and acquisitions parlance. In a merger, the corporations come together to combine and share their resources to achieve common objectives. The shareholders of the combining firms often remain as joint owners of the combined entity” [11]. Merger appears to be a great effort by two firms to unite into one corporate entity with a common vision, mission and objectives. The underlying purpose is to go for a revolutionary change in both of their operating performance by way of making more stronger competitive strengths and synergies. Another meaningful definition of mergers is provided by Ross, Westerfield and Jaffe [9] as they have stated, “a merger refers to the absorption one firm by another. The acquiring firm retains its name and its identity, and it acquires all of the assets and liabilities of the acquired firm. After a merger, the acquired firm ceases to exist as a separate business entity”. A merger may have separate meaning if a consolidation is the process. “A consolidation is the same as the merger except that an entirely new firm is created. In a consolidation, both the acquiring firm and the acquired firm terminate their previous legal existence and become part of the new firm. However, the rules for mergers and consolidations are basically the same” [9].

Gaughan [3] defined “a merger is a combination of two corporations in which only one corporation survives and the merged corporations goes out of existence. In a merger, the acquiring company assumes the assets and liabilities of the merged company. Sometimes, the term statutory merger is used to refer to this type of business transaction. A statutory merger differs from a subsidiary merge, which is a merger of two companies where the target company becomes a subsidiary or part of a subsidiary of the parent company”. While Gaughan’s definition has set a distinction between two kinds of mergers, indeed in a greater sense, merger means an united effort to turn two distinct corporations into one corporate entity for a greater cause to prevail in a highly competitive, diverse and unstructured marketplace in order to play significant corporate roles to achieve organizational success and performance. This virtually means to support capital accumulations process, assets integration process and power integration process to build a coherent
framework of more meaningful and stronger management to serve the
stakeholders with prudence, providence, clarity, objectivity, flexibility,
durability, good governance and transparency. The notion is to serve a
revolutionary framework or purpose to combine resources, inputs, outputs,
corporate cultures, values, leadership norms, and accelerated mission
objectives to explore with considerable market opportunities and threats in
such a unique way that may uphold the spirit of revolutionary management.

3. Most Difficult Corporate Decision while the Success may be
Achievable Depending on the Merged Corporations’ Role in Speedy
Task-Governance

Although mergers and acquisitions pose extremely important purpose to
enter in a broader context of managing a larger corporate environment, these
are highly risky ventures to materialize common goals. Joslin [5] stated, “In
today’s business environment, almost everyone can expect to experience at
least one (if not more) merger or acquisition. Evidence to date says that the
experience will be a disappointment, if not an outright failure. Usually, it is
not the original strategic logic that is proven wrong; rather, the expected
synergies, organizational benefits and combined strengths that the parties
anticipated fail to materialize for reasons that are rarely obvious but easily
prevented – provided the merging companies put as much effort into planning
the aftermath of the deal as they do leading up to it”. Lumsdon [7] remarked
“….. failure to merge is probably more common than success. Still, a
collapsed deal doesn’t have to be complete and utter. You can always learn
from the experience, and when success finally comes, it may be that much
sweeter”. Authentic research on mergers and acquisitions shows the fact that
most of the objectives of a merger were achieved due to the merger
corporation’s legendary roles. Sayewitz [10] stated, “Speed is the key to a
successful merger or acquisition, according to a recently released survey of
124 U.S. companies. Coopers & Lybrand LLP, a New York-based accounting
firm with Fort Worth offices, found companies that adopted a fast-track
approach to a merger or acquisition were likely to achieve more than 80
percent of their objectives. Firms that took a more gradual approach reported
a failure rate of close to 50 percent. And 89 percent of the businesses
surveyed said they should have instituted more rapid transitions”.

4. Mergers and Acquisitions Versus Value Creation

Most of the corporations’ implied intension is to create value. In fact,
value creation seems to be of highest priority for every organization, may it
be large or merged, small or medium, manufacturing or supply-chain,
merchandising or service-driven firms. However, not all companies are successful to create expected value of the firm due to mountains of reasons that are addressed in strategic management. A merged company’s supreme goal is to create firm’s value by collectivity, solidarity, unification and transparency which likely to enhance the merged firm’s overall competitive position. Now the question is: what is value creation? In plain truth, firm’s value means to increase the shareholders’ value by increasing the share value in the marketplace. Although various variables are considered to a proponent analysis, value largely depends on three important factors, namely: liquidity, solvency and profitability. These are the accounting dimensions of the road to achieve firm’s value. Liquidity indicates a firm’s ability to pay off its current or short term obligations, solvency measures the capacity to pay off its long term debts or obligations and profitability reflects the way whether a firm appears to be truly successful institution in creating the firm’s value.

Qualitative variables are historically proven the best estimates to increase firm’s value through liquidity, solvency and profitability. Some of these are: Strong mission, objectives, strategies such as: strong economic and financial forecasting, project evaluation and decisions etc. Other important variables are: strong human resources, flexibility, transparency and good governance, ethical and legal strengths, division of responsibilities, teamwork and empowerment, time-based and fast-track management, applications of responsive manufacturing, adoption of technologies, strong logistics, knowledge, risk and crisis management applications. These areas are such that even a little oversight or miss calculation might produce significant consequences leading to create deterrence in the transition to creating the firm’s value. Another important dimension of creating value is convergence meaning to cope with innovations broadly to gain extra values for a firm to logically direct its resources in line with global changes due to technological revolution and upright demands for increased efficiency and performance. MacMinn (2002) stated, “one conception of convergence is that the lines between banking, finance, and insurance are increasingly blurred. For example, what was once the domain of reinsurance is now that of investment banks or reinsurance acting in capital markets. The convergence is occurring as a result of the innovation, added choices, and improved efficiency”.

Let’s look into the positions of merged companies with particular respect to value creation. Very and Schweiger [12] stated, “while mergers and acquisitions (M & A) are clearly on the rise, most deals do not create value. Researchers have attempted to explain poor performance by a failure to adequately manage the acquisition process”. Some researchers discovered serious conflicts of interests after the corporations merged together while the
acquiring firm tried to use absolute domination over the acquired firm and as a result the merged firm finally produced disappointing outcomes. Some acquiring firm attempted to lay off hundreds of employees of acquired firm in a merged platform reasoning that holding them would diminish company objectives. A sound merger does not necessarily empower an acquired firm to do everything at their own wishes; rather the process should have implanted a sense of ethical and corporate social responsibilities. Merger is a concerted effort, a drive to be unique in exercising power and resources, a plan to unify integrative solidarity and charismatic accountability to do great jobs for acquiring greater performance. Merger should not be used to reflect fascism, repression, hooligans, and a means of autocratic favoritism. Its inherent goals are idealistic to maintain one company with gigantic mission and hilarious vision.

Very and Schweiger [12] stated, “the late 1990s can be characterized as the largest wave of acquisitions (in terms of the number and total value of debt) that the world have ever experienced. In 1998 alone more than 29 thousands deal worth $2.5 trillion were transacted worldwide (Securities Data Corporation, 1999). Yet despite this level of activity, financial economists, strategic management researchers, and a number of consulting firms, have consistently found, that on average, acquisitions have failed to create value for investors and live up to the strategic and financial expectations of those transacting them (Lajoux, 1998)”. Kadlec [6] has described the three broad reasons why a merger effort fails: (1) taking ventures into new fields unrelated to an acquiring company’s business, (2) the second reason many mergers fail is that the buyer overextends, and (3) the inability to marry two corporate cultures into a stable, united relationship. Kadlec [6] jokingly interpreted, “I use the word ‘marry’ advisedly, because if a merger is like anything, it is like a marriage. The wedding represents the end of the easy part and the beginning of a long, complex process. Even if the bride and groom come from similar backgrounds, even if they have a prenuptial agreement on where they will live, who will do the housework and how many kids they will have, there will be some very important details to be worked out. And it is the details that can make or break a marriage”. Kedlec’s exciting example appears to be a first-hand learning guide and a very practical or realistic scenario how merger takes place and how it breaks up. Therefore, merger could be newly termed as “corporate marriage” whereby a complex, penetrating, hassle some, and a long co-existent life would signal either of the two obvious results: growth or rupture.
5. Empirical Results – Causes of Merger Failure

“According to a Boston Consulting Group study, many firms fail to do adequate pre-merger integration planning. They found that eight of ten acquiring companies do no pre-merger planning or analysis of the target company’s business practices, staff skills, structure or organization design, sources of core competencies, and its range of tangible and intangible resources for growth. Most mergers under-perform because top managers fail to consider the specific steps required to integrate an acquisition into their company or analyze how they will maximize their joint potential” [4]. Among the successful merged companies, high technology companies have shown out performance. Frick and Torres (2002) stated, “despite odds that favor failure, the most successful companies in the high-technology industry happen to be active deal makers. To explain this apparent anomaly, we assessed the performance of the 485 larger high-tech companies as reckoned by market capitalization”. According to the authors, the high performers (such as, IBM, Intel, Microsoft, Qualcomm and Sun Microsystems) appear to have mastered four areas essential to success in transactions: (1) they developed clear strategic goals for the company as a whole. (2) they undertake only those transactions that can advance those goals; and (3) they know how to get transactions done quickly, efficiently and with the least possible stress to their acquisitions or themselves. (4) finally they weave these transactional capabilities into their operational fabric (Frick Torres 2002).

By referring a book on M & A published by Towers Perrin and the Society for HRM, Canada NewsWire Ltd. [1]stated, “the top seven obstacles to M & A success are: (1) the inability to sustain financial performance; (2) loss of productivity; (3) incompatible cultures; (4) loss of key talent; (5) clash of management styles/egos; (6) inability to implement change; and (7) objectives and synergies not well understood. According to PR Newswire Association. Inc., [8], Hewlett W.B (2002) reported the aftermath of two big mergers between Compaq (acquirer) and Digital Equipment Corporation (1998) and Tandem Computer Inc. (1997), and Burroughs Corporation's combination with Sperry Corporation to form Unisys Corporation (1986). The report shows that stockholders of the acquirers in each of these large precedent computer mergers suffered significant losses following the transactions. Although each transaction projected earnings accretion within the next two years, each company in fact had substantially lower earnings three years later[8]. Hewlett (2002) continued, "Bigger did not prove better in any of these cases, and in each transaction, integrating the two large companies was a major stumbling block to the creation of shareholder value. 
Above all, history shows that management's optimism does not provide a
ease from the economic reality that business model, not scale, determines

Dixon [2] explained, “while the number of mergers and acquisitions has
been showing during the last couple of years, the challenges associated with
them have not diminished. There is no doubt that the healthcare landscape is
a minefield of failed mergers and uneasy alliances generating great turmoil
and pain. However, there are successful mergers, and these have created
health systems that have benefited the communities they serve”. Dixon [2]
has further pointed out that “some underlying issues have caused the recent
surge in failed mergers. Under great pressure to turn sick systems and keep
up with the demands of a complex environment, some leaders fell into the
‘one size fits all’ mindset and initiated a merger or acquisition”. It may be
argued from Dixon’s remark that broader firm-specific differential
characteristics between the acquiring and acquired firms and subsequent
optical illusions of the leaders may be broadly responsible factors for merger
failure.

6. Merger Can Be a Rewarding Opportunity for Medium and Small
Scale Firms

Apparently some of the empirical studies indicated that a large acquirer
in a merger deal may be significant problem for a relatively week firm as the
strong partner may wish to do anything at its own wishes dismantling
the original wave of mutual understanding. The small or medium scale acquired
firm does not possess adequate capacity to understand the acquirer’s long-
term motives and strategies and in most of the practical cases, the large firm
plays crucially dominant role. That is why the history of merger shows
roughly 50 percent failed experience in merger and acquisition process.
However, it may be argued that a merger may be a successful economic drive
for two similar scale firm those could make transparent understanding and
strong feelings for each others. Historical merger deals show that the
acquirer firm appears to be a larger one than the acquired one holding
significant resources, power and sustainable capabilities that used to force
them to be dominant over the relatively weak and smaller firm. In the context
of global changes and competitive scenarios, the “acquiring-acquired” theory
should have been changed to a new form of merger based on “acquired-
acquired” philosophy. This means that two or more equally strong medium or
small scale forms would enter into a great deal of merger while both or all
firms will be acquired by a new firm which may be the outcome of the
merger process. In this case, a coalition management may be formed taking
equal number of top executives from each firm. The new management would educate the people of all acquired firms that they would be united together for a greater cause, to build an unparalleled framework of core competencies and teamwork that may enable to become a market leader. The new management of the new merged company would assure the members of the human resources that everyone would be treated fairly and they will be given enormous opportunities to create their own capabilities by way of internalizing the product or service excellence. The coalition management must be fast track capable to deal exactly that a reasonably expected strategic firm could take different initiatives aggressively.

Table 1 below shows a guideline for the new coalition management to carry out its strategic roles to move as a bigger power in the competitive marketplace:

Table 1: Coalition Management may scrutinize tasks that are to be avoided and practiced

<table>
<thead>
<tr>
<th>Things To Be Avoided</th>
<th>Things To Be Practiced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambiguity</td>
<td>Open-minded, flexible and transparent</td>
</tr>
<tr>
<td>Selfishness</td>
<td>Greater unity, solidarity for greater cause</td>
</tr>
<tr>
<td>Philosophy before merger</td>
<td>New philosophy and shared Ideology</td>
</tr>
<tr>
<td>Business Practices before merger</td>
<td>Strategic and unified business plans</td>
</tr>
<tr>
<td>Dominant behavior</td>
<td>New and shared corporate culture</td>
</tr>
<tr>
<td>Self-preservation and internal politics</td>
<td>Equitable, unified and shared decisions</td>
</tr>
<tr>
<td>Segmented human capabilities</td>
<td>Enhanced capabilities and trainings</td>
</tr>
<tr>
<td>Superior-inferior domain</td>
<td>Equal spirit, motivation and enthusiasm</td>
</tr>
<tr>
<td>Retaining resource and debt differentials</td>
<td>Unique resources and debt preservations</td>
</tr>
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7. New Merger Model (NMM) for Medium and Small Firms

Analysts and researchers have interpreted the acquisition motives of the large firms. Sudarsanam[11] stated, "acquisition motives may be defined in terms of the acquirer's corporate and business strategy objectives. For example, a large food company with well-established brand names or distribution network may acquire a small, less well-known target in order to
achieve marketing and distribution synergies”.

Keeping in view the historical merger failures mainly due to “stronger and weaker” power play and acquirer’s dominant roles coupled with lack of pre-merger strategic planning, a new form of merger called *NMM (New Merger Model) approach* can be developed. The underlying assumptions of NMM approach are:

i) Two or more medium or small-scale firms will merge together by combination

ii) All firms must have same or quite similar firm-specific characteristics, such as, capital, debt, product or services lines, market power, corporate cultures etc.

iii) All firms would be termed as "acquired" firms, which will be acquired by completely a new firm which is the outcome of such merging combination.

iv) All firms must sacrifice their past traditions and mold all their business characteristics into more enhanced, stronger, synergic, and value-driven core competencies.

v) After the merging combination, the new firm must have a new name to conduct business and the management people will comprise from all the firms equally to form a *coalition management*. Coalition management must be impartial and candid in all decisions and it must hold the overall responsibilities for the new firm's faith and the creation of the new firm's value.

vi) NMM approach may need for considerable deregulation in certain countries to exercise.

The proposed NMM approach could provide amicable opportunities and long-run success for the small and medium scale firms that would wish to be united in any merger deal. NMM assumes principles of equity meaning that all the acquired firms’ assets and liabilities are shared by the newly formed merged company. A coalition management will lead the company with a visionary leadership eliminating mutual differences by adding more values. The new firm will achieve a synergy by way of fueling the merged firm with strategic business plans such as, revitalizing the core competencies, removing trade barriers, crunching opportunities, and motivating the greater workforce diversity. The merged company will be large competing organization within a broad exposure of its sustainable markets devoting resources, enhanced capabilities and management prudence in earning business reputation. The concerted efforts would create the stockholders’ value meaning an indication to increase the potential for all stakeholders including investors, customers, creditors and employees. The coalition
management is expected to leave no stone unturned to lead a ‘win-win’ philosophy by adopting an enterprise-wide knowledge exercise and sharing attitudes toward the team and participative management.

Figure 1: Equivalent firms in NMM approach can create a positive synergy

8. Conclusion

In the world of faster challenges of changes, big players are even growing bigger and smaller firms find no way to defeat the wave of fierce rivalry and competition. The state of situation is so worse that many small and medium scale firms have faced 'good bye' from industrial scenario while once they had enjoyed abundant liquidity, solvency, profitability and growth. Now the time warrants that the medium and smaller firms may come together to build giant firm in order to serve two broad purposes: 1) tackle their individual deterrent conditions; and 2) achieve future success with a merged spirit by combining two or more firms' wealth, inspiration, motivation, diligence and leaderships. Before merging the subject firms must first have to draw significant pre-merger plans and post-merger policies to serve their greater cause. The new firm must have to be fast track, highly responsive to the market's needs and customers' desires. Internal politics, biases, nepotism, ambiguity, traditional psychology, are all deterrent factors for a reputable unity and solidarity. Majority merger efforts became disappointing and unsuccessful due to the giant acquirer's selfish and ridiculous decisions ignoring the acquired form's status and interests. Respects cannot be achieved if respect is not shown, value cannot be gained if value is not given. The New Merger Model (NMM) as hypothesized and depicted in this research would produce scholarly and sustainable results, if the subject firms could uphold a dynamic spirit to maintain all areas of developments. The new theory of coalition management may serve as a unique characteristic that
many small and medium scale firms may be interested to gain outperformance in their merging efforts.

A firm’s supreme goal is to create shareholders’ value and in most of the instances, empirical evidences show that the value rather had been suffered to a great extent after the giant mergers and acquisition process. In fact, two or more unequal, complex and heterogeneous environments and distinct corporate cultures were swiftly commingled together, exactly like an effort to dissolve some powder milk with oil and sugar. Neither the acquirer nor the acquired firm had held the concrete strategies to navigate the joint efforts for longer run and as a result they had to embrace the inevitable failure and utterly disappointing outcomes. New Merger Model (NMM) may conversely provide the medium and small leaders to gain sustainable power of economic and motivational growth and developments. The concept of coalition management would work in situations where leaders might be able to turn out to be on the homogeneous stance in fulfilling the broad objectives of mergers. For this, everyone must not be skeptical toward the common platform on which the merged firm operates diminishing the idea of isolation, anarchy, lawlessness and turmoil. The common target is to be hitting the market and beating the competitors within the broad legal and ethical scope of business.

References


