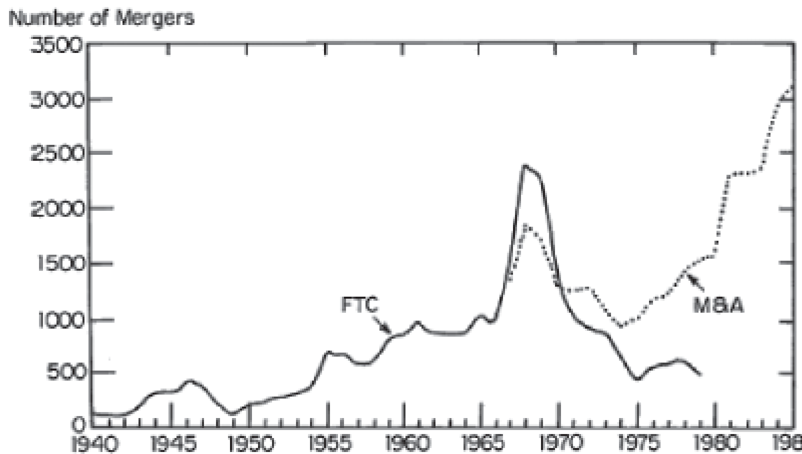
Mergers: (some) good motives and (often) bad results



Number of mergers and acquisitions in the U.S. (Source: NBER, 1987).[10]

As the above chart shows, for the 50 years after World War II in the U.S. economy, mergers and acquisitions are not something new, but they have, bar a few contractions, continued to rise, especially since the 60s in America, the 80s and 90s in Europe, and over the last two decades on a global scale. In the first half of the 1990s there were more than 1,500 mergers in the U.S. financial sector alone. There can be good motives behind mergers, acquisitions, or other more flexible forms of joint ventures: increased revenues, larger market share, economies of scale or of scope, critical size (essential or inevitable in some industries), access to new markets, diversification, synergies, vertical integration, etc. However, too many M&As (mergers and acquisitions) seem to be driven by that fear of being left behind, or by a bad desire, or a clear design, to choke off rivals; or even by a runaway solution to internal problems. In their (too?) quick discovery process of capitalism, the Russians, among

10 *"Mergers and Acquisitions in the U.S. Economy: An Aggregate and Historical Overview"* by Devra L. Golbe and Lawrence J. White for the National Bureau of Economic Research (NBER) (University of Chicago Press, 1987). FTC series stopped in 1979 and were picked up by M&A periodical (dotted line).

others, seem to have learned bad lessons on this subject too: announcing a possible mega-merger of metals groups including Norilsk Nickel, the Financial Times mentioned "*easing debt*" as a primary motive.[11] Easing debt! Frequently M&As are inspired by glory-seeking or pure megalomania packaged as "strategic thinking" in the name of good old "shareholder value". In this hunter-and-hunted world, we have even seen sillier things, such as buying a competitor in order to avoid being purchased by that competitor or another. This has been obvious in the maneuvers in the aluminum and mining industries, among others.

More examples? We have witnessed the cases of companies buying others just "with" ("because of" would be a more suitable word) their – current or most recent – market value: Time Warner was much bigger in sales than AOL when the latter took the former over. Since then, a market (value) correction came, the company was renamed and the acquirer has become a division of the acquired. Ryanair has bid more than once for a complete takeover of older and once bigger Irish rival Aer Lingus. The low-cost carrier already has a stake in the latter and now generates three times more revenues, but a major underlying factor to help or justify (?) the purchase is the much bigger market cap. What is the point in buying "*a small, peripheral regional airline with declining traffic*", as Ryanair's boss named it?[12]

According to the maverick management guru Tom Peters: "*Bigger is almost never better. Big mergers are stupid. (They) spring naturally from big egos. At times of market uncertainty, the biggies, even the so-called "good" biggies, bulk up to defend themselves… And yet we do "it" again and again…*"[13]

11 "*Norilsk tycoons eye mega-merger with metals groups to ease debt*" (Financial Times, January 20, 2009).

12 "*Ryanair loses European court battle over Aer Lingus takeover*" (The Independent, July 7, 2010).

13 Tom Peters: "*26 Rules for Recessions*", posted on June 30, 2008 on www.tompeters.com.

Summarizing the reasons why M&As are, on the whole, less successful, would take an entire book. It boils down to at least six explanations, at work alone or together:

- An ill-conceived business model;
- A wrong fit (between products, cultures, et al.);
- Embedded problems in the acquired company;
- An ill-advised financial structure (mind the investment bankers here, too!);
- A decrease in market responsiveness (internal or “digestion” concerns being put first and slowing down reactive capabilities);
- A wrong timing – or sudden or unplanned change – in the business, industry or economic environment that make the “best” plan go down – or makes things worse.