

Beyond the Deal Newsletter

***Mergers and Acquisitions that
Achieve Breakthrough Gains***

www.beyondthedeal.net

October/November 2013

Quote of the Month:

"Companies self-destruct when a great culture erodes. It might be the most difficult-to-measure asset in a business, but culture could also be the most important. CEOs who fail to define or defend a company's culture are destined to lose control over time."

Issac Pino, CPA in "How To Protect Your Portfolio From Self-Destructive Companies", October 28, 2013

New and Noteworthy:

- ***The Progressive Practices Website Update:*** The Progressive Practices website, www.progressivepractices.com, is updated to be a better and more accessible resource. The website has a new look and feel as well as an improved ease of navigating. In addition, the entire file of Beyond the Deal newsletters is now in a blog format on the [What's New](#) page. Blogs are listed chronologically for ready accessibility and ease of searching. The Newsletters are also be available as well at www.beyondthedeal.net in the Newsletter archive. Find out how the changes and new options provide both a simpler,

more seamless usability.

- ***New Club of Paris:*** Jay Chatzkel was inducted as a full member of the [The New Club of Paris](http://new-club-of-paris.com). The New Club of Paris was founded in 2006 to serve as the agenda developer for the Knowledge Economy. The Club's main objective is to create awareness on what the knowledge society is and will be, and also support nations, regions, cities, communities organizations and companies in their transformation into the Knowledge Economy. To learn more about The New Club of Paris go to: <http://new-club-of-paris.com>.
- ***Thunderbird International Business Review Article:*** The Jay Chatzkel and Dr. Artie W. Ng co-authored article, "The Emergence of Contemporary Chinese Enterprise: The Heterogeneity of National Culture, Corporate Controls and Integration Approaches in M&As", is featured in the [Thunderbird International Business Review](#) (Vol.55, No. 5, September/October 2013).

The article is in a special, follow-on section to the July issue on Socio-cultural Integrations. It explores the emergence of the three main types of contemporary Chinese enterprises. The focus is on their underlying cultures and their implications for mergers and acquisitions (M&As). Our premise that there are three major types of Chinese enterprise: 1) state based run, 2) family based and 3) entrepreneurially based. Each tends to subscribe to its own configuration of "traditional wisdom". While these constructs are directly usable where Chinese culture predominates but things change when these enterprises move out beyond its borders to make controversial and sizable cross-border acquisitions, Chinese enterprises need to understand not only their own core cultural principles but also the principles and practices of the companies they seek to acquire as well as the requirements of key stakeholders involved.

Without necessary comprehension of differences, proposed acquisitions may be especially resisted, and then be more challenging to carry out and integrate as well. The high-profile attempt by Shuanghui International to acquire Smithfield Foods for \$4.7 billion is a case in point where resistance is cultural more than legal or financial.

In contrast, when the Dalian Wanda Group Ltd. successfully made its \$2.6 billion acquisition of AMC Entertainment Inc. in 2012, it made history by completing the largest ever U.S. acquisition by a Chinese company. The key difference is that it carefully laid its groundwork and that enabled it to face far fewer hurdles. In fact, the acquisition was welcomed as providing a source of substantial capital for use in the acquired company. While there are no guarantees in the outcome of any acquisition, taking the time and making effort to understand the cultural issues and building relationships with key stakeholders will make the difference if the acquisition is to achieve a position outcome.

- **[eknow Webinar on November 12:](#)** Jay Chatzkel will moderate the Webinar on "**Achieving Your M&A Goals with eknow Integrator**", on Tuesday, November 12 at 2 PM ET. The Webinar is sponsored by eknow, the developer of the eknow Integrator tool used in managing the complexities of post merger integration.

Join Alan Croll, eknow's CEO and Manuel Sanches, eknow's President and Chief Product Architect, on the panel for an in-depth look at key concerns that users often have with Post Merger Integration software tools. eknow has been working with companies on post merger integrations for over fifteen years. Time and technologies have changed, but the fundamental issues that need to be successfully addressed remain the same:

- How can an integration support tool make a big difference in the speed of carrying out an integration?
- How are the individual needs and requirements of each unique company addressed and accommodated by the tool?
- What is the least cost approach for employing a powerful integration support tool?

The Webinar will explore how each of these issues is resolved in the new generation of integration support software tools.

Register for the Webinar at: eknow.com/whats-new/webinars/

In Process:

The pace of acquisitions had markedly slowed in the earlier part of 2013. However, a number of major acquisitions are now in process that indicate conditions for major acquisitions that have been in the works for a long time are ripe to come to fruition.

Additionally, other companies, such as US Airways are taking advantage of an improved business climate and a new convergence of opportunities to initiate acquisitions they have coveted for a number of years.

- **Verizon's** management is obtaining full control of the company by buying out Vodafone's stake for \$130 billion in the biggest acquisition in more than a decade. The deal, sought by Verizon since at least 2004, implies a total value for [Verizon Wireless](#) of almost \$290 billion -- larger than the market capitalization of Google Inc.
- **Microsoft** is buying Nokia's Devices and Services for EUR 3.79 billion euros and an additional EUR 1.65 billion for its patents, amounting to total of EUR 5.44 billion (US\$ \$7.2 billion) according to a statement from the companies. Microsoft is deepening a push into hardware as dwindling computer sales sap demand for the programs that made it the world's largest software maker. The question is whether Microsoft (or any other acquirer) buy success without engaging in its own transformation? Google's recent acquisition of Motorola Mobility for \$12.5 billion has yet to show significant positive returns on such a sizeable acquisition.

Will Microsoft get any better creation of value? For a fuller exploration of the Google/Motorola Mobility acquisition go to the Progressive Practices blog, "[Google: A Tale of Two Cities - Part 2 - What To Do With Motorola?](http://progressivepractices.com/blog/google-a-tale-of-two-cities-part-2-what-to-do-with-motorola/)" (<http://progressivepractices.com/blog/google-a-tale-of-two-cities-part-2-what-to-do-with-motorola/>).

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US Airways is battling the US Justice Department and a number of states who claim that the US Airways/American Airlines merger will stifle competition. Interestingly the unions involved have come out in favor of the merger. However, the Justice Department and its partner states see that the new combination will reduce choices passengers have and the number of flights to less served locations. As a result, the acquisition is halfway through the looking-glass. Plans and actions, such as redesign of logos and planes, flight reassignments, and just about everything that will change if and when the merger goes through are still being planned for but cannot be implemented. This can either be seen as a significant burden for the companies involved, or looked at as an opportunity to use the time to research and plan in a less rushed time frame that will enable a markedly smoother, richer and more effective transformation if the deal goes through.

This was the case when the Dow Chemical's acquisition of Union Carbide was held up for a year into 2001. Dow's integration team reexamined all aspects and steps of what the integration would entail and reformulated their integration plans to be much more effective than if the deal would have quickly gone into effect as originally planned. What are US Airways and American Airlines doing during this hiatus as they are going through anti-trust legal battles? There has been little mention of using this time to rethink new combination in the media, which is not surprising. It is understandable that the two companies want their post acquisition integration planning so they do not run afoul of SEC regulations on keeping each organization at arms length prior to the actual deal being finalized.

In the end though it will be the cultures of the two companies, and particularly US Airways, that are the deciding influence on whether this enforced time out is taken advantage of to significantly improve the integration of this new combination. For example, are they going to focus on enhancing customer satisfaction as their pathway to their competitive advantage or is their attention primarily on cost cutting as their way to increase profitability? This is another one of those "stay tuned" situations.