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Strategische Einflussfaktoren von M&A-Transaktionen

Doctoral (PhD) thesis

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1. Objectives and hypotheses

This paper's objective is the examination of the strategic influencing factors on M&A transactions. Therefore all relevant factors, which influence the absorbed company's value after the completion of the transaction, have to be identified. Furthermore, it will be shown how the process of a substantial value addition due to M&A transactions can be judged and appraised financially.

The following hypotheses can be deduced form these objectives:

H1. The achievement of a substantial value addition requires a process oriented consideration of M&A-transactions which includes not only the planning and implementation of the transactions but also the strategic development.

H2. All influencing factors that have to be considered can be traced back to different theoretical approaches and require therefore an integrated, holistic contemplation. The frequent failure of M&A-transactions in day-to-day business practice is not caused by maximised self-interest of the acting company's management but rather by the missing practicable theoretic foundation.

H3. Due to the reality's complexity the theoretic foundation has to be detained in an eclectic approach and a special weighting has to be given to intangibles.

H4. By using the elements of market structure, technology, and organisation, the eclectic approach is able to integrate all monocausal approaches.

H5. Here, strategy is being added as a special factor. Strategy is being used to influence market structure, technology, and organisation and therefore it is used to reach the company's goals.

H6. The implementation of strategic influencing factors into the search process, the due diligence, the valuation of a company, and the acquisition controlling, increase the possibility of a successful M&A-transaction.

2. Research Methods

The approaches described in literature, try to justify M&A-transactions only in an isolated way by using efficiency advantages, management motives, or environmental factors. Efficiency advantages like synergies (e.g. economies of scale), eliminated transaction costs, monopoly rents or tax advantages can lead to an augmentation of the acting company's market value (shareholder value). The management's motives can be separated by claiming that the only real motivation for a transaction is the acting management's self-interest (agency theory). Prestige addiction, insufficient incentive systems as well as overestimation can cause M&A-transactions, even if it will cause an empirically founded diminishment of shareholder values. Furthermore, environmental influences can be identified that promote or cause new M&A-transactions: The appearance of new technologies (internet, gene technology), alteration of the political-legal basic conditions (introduction of the Euro), as well as the macroeconomic development (globalisation) can create a periphery which abets the realisation of company goals with the aid of M&A-transactions. Only the combination of all four points allows an explanation why M&A transactions were used to pursue the strategy instead of strategic alliances or internal growth.

A monocausal approach (e.g. like the cost of transaction approach) can only rarely be a sufficient reason for the realisation of M&A-transactions. Therefore, the research method of this paper is based on an eclectic approach by combining the monocausal approaches. Unlike in literature, this approach is not supposed to be empirically aligned but is based on strategic management as well as the shareholder value approach. In order to pursue the objective of maximizing the shareholder's asset value, the strategic approach is an indispensable necessity: after considering that this objective has a strategic orientation of its own, it is the only possible viewpoint to decide whether an M&A-transaction is ideal. However, this viewpoint is generally neglected in practice. This paper will advance the view that the inclusion of strategic influencing factors into the decision making process regarding the choice of the M&A-objects, is going to increase the possibility of a successful M&A-transaction. The eclectic approach determines normatively which M&A-transactions will lead from an ex ante-point of view to a value augmentation. It differs strongly from the usual modus of operandi of an ex post-view propagated in literature up to now.

To insure the scholarly standard of the eclectic approach, a basic structure is chosen to allow a connection of the isolated approaches. The common factors used in literature

- market structure
- technology and
- organisation

shall also be referred to. They are supposed to represent that part of reality that generally helps to identify positive and negative effects on M&A-transactions.

In addition to those common factors, the factor strategy has been added to reflect the normative or rather prescriptive approach of the chosen research method. After all, M&A-transactions do not happen by chance in regard to the strategic influencing factors, but are based on the strategy chosen by the company's management. Therefore, the implications and retroactions on the strategy have to be considered. The cause-and-effect-chain among the strategic influencing factor, the strategy influenced by those factors as well as the strategy's influence on the asset value maximization, which is a target figure from the shareholder's viewpoint, will be illustrated in the following figure.

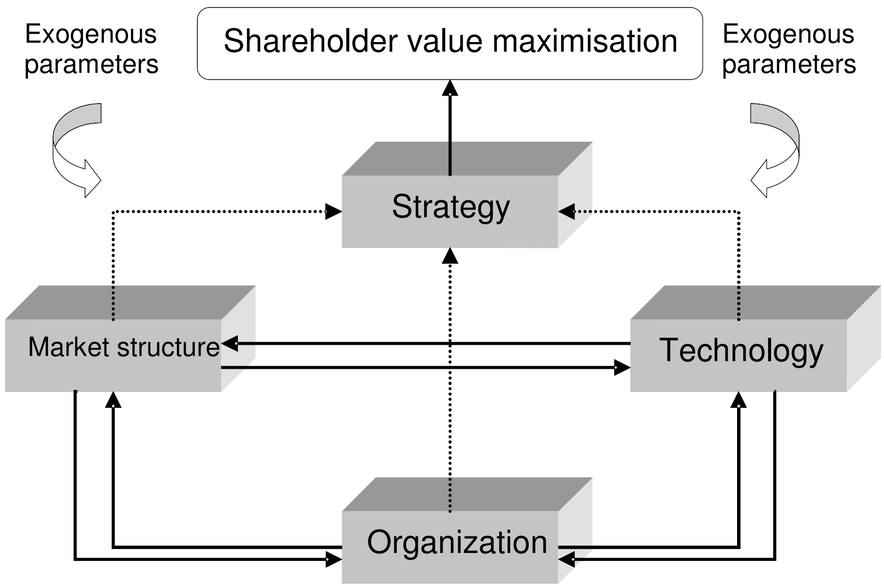

Fig. 1: Cause-and-effect-chain among the influencing strategic factors

The eclectic approach developed in this paper has the following structure: To establish if an M&A-transaction is supposed to be successful according to the structure, each respective influencing factor - market structure, technology, and organisation - has to be analysed systematically. Due to the fact that there are interdependencies among the single factors, those interdependencies have also to be examined. The figure tries to demonstrate this fact by using alternating directional arrows. Furthermore, each individual influencing factor affects the chosen strategy as a control quantity (dashed arrows). The strategies can either be a disinvestment or growth strategy. The ideal implementation of each strategy will affect the target value as asset value maximization.

For the management practice, the eclectic approach's implication is the necessity to examine M&A-objects in regard to the factors market structure, technology and organisation. If the management pursues a growth strategy, it has e.g. to examine the target company's market position in the desired growth market. Furthermore, it has to be examined if the targeted company uses proprietary technology and it has to find out, how soon potential competitors could copy this technology. The sales organisation could play another important role. How quickly can they sell off the technology's products on the market and thereby increase or manifest their position? The eclectic approach provides not only an explanation for M&A-transaction that have already taken place but also enables the company's management to structure and to assess the various interdependencies in the context of a planned transaction.

The eclectic approach answers the question, why so many transactions do not succeed in reality. The - by literature - suggested isolated approaches do not lead to a reduced complexity. But the management has to be able to systematically analyse various complex questions, which normally interdepend on each other, before it is going to purchase the target company. The decision whether the desired strategy can be reached with the target company's purchase or not, can only be resolved after those questions are answered. The approaches propagated by literature do not suffice for this task because they reflect only a very small part of the big picture. The eclectic approach enlarges this part by integrating different approaches. In addition, it also broadens the view to negative factors because the influencing factor's analysis may reveal some factors' negative effect on the strategy. As long as the positive effects outbalance the negative ones, the purchase of the target company is still feasible, given that the negative effects are kept to a minimum and there is no better alternative available on the market.

The basic structure of the eclectic approach as well as the identification of the influencing factors could only be established due to the systematic research of a wide variety approaches in literature. When looked at them isolated, these are good enough to explain the success or failure of individual homogenous groups of M&A-transactions ex post, but they do not qualify for a comprehensive and systematic ex ante-analysis. Up to now, all attempts for a comprehensive concept of approaches ended either as a hierarchic classification or they were not connected at all but they were juxtaposed.

Therefore, the integration of the relevant approaches into a systematic analysis of strategic influencing factors in the context of an eclectic approach has been developed. With this aid, the positive and negative effects of the chosen alternative M&A-transaction can be predicted.

The selected influencing factors ought to represent the common intersection of approaches. So, they will give the management the opportunity to integrate as well as to indentify all possible interdependencies of approaches in the context of M&A-transactions.

The integration of the eclectic approach into the strategic management happens via the ex ante-viewpoint and the assumed value orientation. Before the background of the shareholders' asset value maximisation, hence the necessity of value maximisation and the associated strategy definition, the focus pro or against a decision for an M&A-target should be based on a successfully analysed strategy. The eclectic approach falls thereby back on the strategic managements' classical instruments like Ansoff's strategy mix or Porters' competitive strategy. But the instruments are neutral in regard to the strategy, i.e. if they are implemented through internal growth, cooperation or M&A-transactions. Ansoff's strategy matrix only determines for the target company on which markets it should sell which products in comparison to the acting company (market strategy). However, the question of how this product/market-combination is to be handled from a competition-strategic viewpoint (competition strategy) is being completely left open. Because in practice the decisions in regard to the market- and competition strategy arise simultaneously, those market- and competition strategy considerations should be integrated. Therefore, Ansoff's traditional classification is extended by Porter's conceptions. A significant pillar of this extension is Porter's value chain approach. The actual purpose of this approach is the analysis of the own company's competition- and customer value orientation. To identify potential competitive advantages, the company is being divided into strategic relevant, value increasing activities. Afterwards they are being arranged like a value chain. Now, it is possible to deduce precise possibilities to realise competitive advantages due to cost or differentiation advantages. These considerations have to be transferred afterwards to the hexagon-concept of Copeland/Koller/Murrin. This concept establishes the reference to the value augmentation and makes the transfer from the strategic planning to the evaluation of the company possible.

In this extended eclectic approach, the starting point for strategy development in the context of M&A-transactions is the vision and the strategic excellence position of the acting company. This includes all abilities that distinguishes the company from its competition and allows for an above-average return of investment in the long run. Such strategic excellence position can be composed of e.g. superior products, a certain image or predominant production technology and can be determined through a SWOT-analysis. This constitutes the basis of the strategic excellence position, which has to be used to formulate the company's strategy as well as the separate business' areas strategies because successful strategies are build on the existing strengths. The business area or competitive strategy focuses on the obtainment of competitive advantages for the company's strategic business unit (SBU). The market requirements and identifiably are the criteria to define the strategic business units from its competitors. A competitive advantage is reflected through a superior company performance value for the customer. According to Porter, this "value" can be assessed by the price the customer is willed to pay for a certain product or service. Porter proposes the value chain as an analytic instrument. There are many strategy alternatives for the subsequent strategy implementation whereof only the growth and divestment strategy will be looked upon closely.

The horizontal strategy can be seen as a justification for diversified companies because it will cause competitive advantages due to reasonable interdependencies among different business units. According to Porter, these interdependencies can be characterized as material, immaterial or competitive.

- A material interdependency is created by the possibility of common value activities among the various business units. Therefore, the sales department could represent such interdependency.
- On the other hand, the transfer of management-know-how among the business units represents an immaterial interdependency.
- Competitive interdependencies are caused in those cases, where diversified companies are competitors in more than one sector (multipoint competitors).

Intangibles possess a special importance not only for the growth but also for the M&A-strategy. The term is taken from financial reporting and applies – except financial investments – to all assets that can not be touched physically. This includes commercial property rights like patent rights, trademarks or licences as well as the good will or company value. In the broadest sense of the term, even financially non- capitalisable goods like knowledge can be added. The characteristics of these intangibles result from the fact that they are very often in the center of M&A-strategies. The reason is the simplicity of reproducing physical assets. They are capitalised in the target company's balance sheet and increase the lower limit of the purchasing price via the divesture value. Therefore, an appreciation can accrue for the buyer solely due to the difference between market and book value or rather in different productivities. On the other hand, intangibles can often be capitalised only to a minor degree or the activation is restricted on others. But intangibles can not be transposed for the acting company by each transaction alternative. In many cases, M&A-transactions are the only possibility to transfer intangibles to the acting company without having to pay prohibitive transaction costs.

3. New research results

H1. *The achievement of a substantial value addition requires a process oriented consideration of M&A-transactions which includes not only the planning and implementation of the transactions but also the strategic development.*

The present paper's basis is the evaluation of strategic factors which influence M&A-transactions. Assuming the M&A-transactions are a mean to create an additional value for the acting company, the question arises how this process of adding value can be explained, planned and managed. The different factors of a successful M&A-transaction form the foundation to achieve this. The objective of each M&A-transaction is the augmentation of the market value and has to be kept always in mind when looking at the different factors. The foundation is a methodic M&A-process and reaches from the strategy development via the company's appraisal up to the determination of the purchase price. The aimed at strategic success positions have to be verified by applying due diligence.

H2. *All influencing factors that have to be considered can be traced back to different theoretical approaches and require therefore an integrated, holistic contemplation. The frequent failure of M&A-transactions in day-to-day business practice is not caused by maximised self-interest of the acting company's management but rather by the missing practicable theoretic foundation.*

In theory, there are many approaches discussed and three of them have to be pointed out: cost of transaction valuation, hypotheses of synergies, and resource-oriented valuation. Empirical success data concerning M&A-transactions show that in almost 50 percent of all cases, the companies are unable to incorporate the huge amount of scientific insights into a successful M&A-management. As a core statement, this paper wants to show that the low rate of success is not caused by maximised self-interest of the company's management. In fact, the heterogeneous scientific foundation inveigles practitioners to make their M&A-transaction decisions without referring to the theory. They rather rely blindly on the results of the company's appraisal. However, the quantified assumptions of this appraisal are noticed in a rather subjective fashion.

H3. *Due to the reality's complexity, the theoretic foundation has to be detained in an eclectic approach and a special weighting has to be given to intangibles.*

The numerous empirical investigations lead to the assumption that there exists no truly outstanding approach. In fact, all efficiency approaches make their contributions to the generation of added value due to M&A-transactions. Also, the combination of hypothesis of synergy and cost of transaction valuation, which is suggested by literature, is not leading to the desired results because essential approaches are being neglected. In this paper, the eclectic system used to integrate all approaches complies with the primary requirements. These requirements ask to pay attention to all possible interactions among the approaches. It is applied because all interactions are broken down in their elemental components (the separate influences of one factor onto another).

H4. *By using the elements of market structure, technology, and organisation, the eclectic definition approach is able to integrate all monocausal approaches.*

H5. *Here, strategy is being added as a special factor. Strategy is being used to influence market structure, technology, and organisation and therefore it is used to reach the company's goals.*

The advantage compared to an isolated-parallel classification of the relevant approaches is obvious: the classification neglects tacitly all interdependencies although this is justified only in certain situations. The differences to a hierarchic classification of approaches can not be seen at first glance because the system may reflect the interdependencies but a real analysis can only be conducted when using the hierarchic fragments of the system. Here, the developed system has another advantage: In the beginning, it can be used as a structural aid to clarify the coherencies. In doing so, the potential interdependencies and coherencies become clear to the decision-maker beforehand. Afterwards, a simplification through a hierarchic adjustment can be applied so that the neglect of interdependencies is minimized. Sometimes it can be appropriate to use the system to conduct several hierarchic classifications (e.g. in the "other direction"). This helps to evaluate the comparative meaning of each examined interdependency. Therefore, it is also possible to achieve at least a weighting of the approaches' comparative meanings. Now, in opposition to the criticized classifications, it is possible to present rational arguments why a certain procedure is being chosen. Whereas a hierarchic classification implies a certain "direction of action" of the interdependencies without paying any regard to an alternative classification of the approaches.

The use of the system allows identifying the causes of many conflicting results that can especially be seen when applying the transaction cost approach. For example, from the viewpoint of the transaction cost approach, it is not understandable why strategic alliances are made in the area of high technology although the TEECE predicts relatively high transaction costs. The alternative of a strategic alliance seems to be unfavourable from the theoretic viewpoint. But after the "one dimensional" theoretical viewpoint of transaction cost has been overcome, it can be seen intuitively that besides the costs of transaction also immense "profits of transaction" can arise which overcompensate the adverse effects. Especially when looking at extern research assignments or strategic alliances, the external will probably be more competent. On the other hand, there will be a stronger incentive to reach the "contracted" goal.

The paper of BAKOS/BRYNJOLFSSON shows that the transaction cost may have a negative effect on the alternative's advantageousness. But this effect can be overcompensated in some cases by the simultaneously induced value of incentives. In the automotive industry, this seams to be one of the reasons, why many, relatively small suppliers depending on just a few great automotive cooperation can be found. Their location is as specialized as well as their products and they have made large specific investments ("asset/site specificity"). According to the ("one sided") monocausal viewpoint of KLEIN/CRAWFORD/ALCHIAN, a vertical integration would have been the much better alternative, because transaction costs would have been reduced. After all, the high flexibility of such "networks" plays surely an important part, too.

H6. *The implementation of strategic influencing factors into the search process, the due diligence, the valuation of a company, and the acquisition controlling, increase the possibility of a successful M&A-transaction.*

Furthermore, the reasons can be analysed if M&A-transactions do not yield the desired "success". On one side, the cause will be the neglect of potential alternatives in practice. Like it was explained previously, synergy effects are not only realised through acquisitions but basically through internal growth or market transactions. On the other side, the "success" of the alternatives is inextricably connected to the pursued growth strategy. The failure of the acquisition can be traced back to a "wrong" growth strategy.

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