Mergers and acquisitions: an international operations perspective

Leading manufacturers are pumping trillions of dollars into overseas investments as they seek to establish a position in global markets. The primary means for such Foreign Direct Investment (FDI) are mergers and acquisitions (M&A). However a major research project by the Institute for Manufacturing reveals these deals often fail to meet key objectives due to a failure to assess and manage issues of operations integration.

Firms undertake international M&A for a variety of reasons – for example to gain access to new markets or provide access to raw materials. Haier’s unsuccessful $1.3bn bid for Maytag would have enhanced its presence in the US. Aditya Birla’s acquisition of copper mines in Australia and a pulp mill in Canada secured sources of vital raw materials.

Most international M&As involve significant integration of operations by the companies involved. The IfM has carried out an extensive study of over 30 international M&As in order to understand the operational issues involved in these large-scale international deals. This Briefing summarises the research findings and highlights some of the implications for all stages of the M&A process.

Operations process framework for international M&A

Although different academics and consultancies favour different models for discussing the complex process of M&A, there is a logical set of operational stages to be conducted in any international M&A. The IfM research developed an operations process framework (top right) that has been tested with a wide range of M&A practitioners. This framework ties operations considerations to the higher-level strategic processes of initial target selection, assessment and execution, linking them together and setting them in the context of the key milestones in M&A deals: agreement, exclusivity and ownership. The framework shows the activities in each stage, and the inter-linkages between internal and external stakeholders.

M&A and value creation

Value creation is the fundamental objective of M&A and defining the synergies to be achieved is imperative for successful execution. IfM research has shown that the principal operational drivers of value creation for international M&As are:

- **Network access** (to resources markets, products, technology and know-how)
- **Network efficiency** (supply side efficiency, production efficiency and route-to-market efficiency. Tax efficiency is also a significant potential benefit, but is not a major focus of this work).

Types of M&A

M&As may be classified in many ways. We have found the following categorisation most useful as it provides strong links to the drivers of value and to likely integrative synergies (see graphic overleaf):

- **Horizontal** when the operations of one need to integrate with similar operations in the other firm. Sub-categories include:
geographic and ownership boundaries, are increasingly taking place across
rate of M&As. Today’s business activities
improvement. Conversely, inadequate
synergy mechanisms such as economies
links to both operations due diligence
(above right), which shows the primary
use the classification shown in the figure
are evaluated during due diligence. We
that the relevant aspects of operations
release expected synergies, so it is vital
M&A are dependent on operations to
driven by M&A type. Many types of
due diligence activities should also be
influenced by operations due
diligence, since the necessary information
can seriously undermine the original
rationale.
For all these reasons there is a strong
argument for the involvement of
operations staff at an early stage of the
project. However these operations team
members will need to be able to work
in a different context to normal day-to-
day operations. There will be neither the
data nor time to make assessments at
the level of accuracy normally expected.
In addition, the evaluation will have
to be carried out under conditions of
extreme confidentiality. Finding the right
operations members is therefore a critical
task – especially as they may have to act
across a range of operational disciplines, in
order to keep the team to a manageable
size.

Research approach
The research approach involved
engagements with a broad range of major
multi-national companies. Understanding
the drivers of M&A initiatives was of
key importance and forms a significant
part of the conclusions. Engagement
with City institutions which are closely
involved with M&A transactions allowed
the perspectives of bankers, lawyers and
consultants with broad experience of
M&A to be considered.

Research team
The M&A research team includes Dr Jagjit
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research is in preparation and will be
available from the IFM website:
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Overlap where similar products are
sold in similar countries
Market extension where existing
products from one firm can be rolled
out to markets served by the other
Product extension where the product
technologies of the two firms can be
combined to develop new products
• Vertical when the operations of one
need to integrate with those of a
potential supplier ‘upstream’ and or
customer ‘downstream’
• Unrelated when there is no
involvement of operations

Implications for successful M&A
The research identified some key issues
that should be considered in order to
improve the success of international
M&As.
1. Assessment/due diligence
The target will have been chosen on
the basis of limited knowledge and so
the acquiring company will have made
assumptions. Due diligence is the
process of evaluating those assumptions
allow the acquirer to form a better
estimate of the value potential in the
deal and to refine its valuation of the
target. The process map shows two
phases of due diligence, during the initial
operations assessment and also during the
development of the operations strategy.
The assessment needs to consider the
assumptions about the target firm and,
if integration is required to deliver value,
whether this integration is feasible
without compromising that value. This is
particularly complicated in operations due
diligence, since the necessary information
is either not recorded or is not collated in
any central database.
The sources of value in M&A, and
the consequent necessary integration
activities, will be strongly influenced
by the type of M&A. The necessary
due diligence activities should also be
driven by M&A type. Many types of
M&A are dependent on operations to
release expected synergies, so it is vital
that the relevant aspects of operations
are evaluated during due diligence. We
use the classification shown in the figure
(above right), which shows the primary
links to both operations due diligence
priorities and integration tasks.

2. Post M&A integration of
international networks
Successful post M&A integration (PMI) is
a major source of value creation through
synergy mechanisms such as economies
of scale and scope, and management
improvement. Conversely, inadequate
PMI is a major cause of the high failure
rate of M&As. Today’s business activities
are increasingly taking place across
geographic and ownership boundaries,

which tends to make successful PMI
a more challenging task. For example
when Hindalco, part of India’s Aditya
Birla group, acquired Canadian-based
Novelis for $5.90bn in 2007, it not
only expanded down-stream but also
acquired significant operations in 11 new
countries. The challenge increases in
network organisations due to their extra
complexity and interdependencies.
PMI processes are extremely complex and
encompass a large number of interrelated
decisions and actions involving:
• facilities and assets
• operational processes, management
and organisation
• IT systems & support, human resources
and culture
• suppliers and customers
IFM case evidence supports the argument
that different types of M&As with a
range of strategic objectives will focus on
different integration issues.
The integration process has three
main steps. The first step is to align
the integration process with the M&A
objectives by developing appropriate
integration objectives, working principles
and defining critical success criteria. The
second step is to discover any network
configuration gaps and to identify critical
integration issues. The third step is to
develop action plans to address the key
issues in time sequence. Worksheets,
which have been tested in live M&As,
have been developed to help managers
assess issues and develop action plans.

3. Role of operations managers in
the M&A process
It is often difficult to obtain the data
needed to undertake an initial operations
assessment and to develop an operations
strategy. Such data will also require
interpretation by operations specialists.
It is vital that the people executing the
operations plan (typically operations
managers), do not forget the original
motivation for the acquisition. The
IFM research showed, however, that

\[ \text{This classification is an extension of the classification developed by the US Federal Trade Commission in the 1970s} \]