МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ

ХАРКІВСЬКИЙ НАЦІОНАЛЬНИЙ ЕКОНОМІЧНИЙ УНІВЕРСИТЕТ
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Тексти та практичні завдання
з навчальної дисципліни

"ДІЛОВА ІНОЗЕМНА МОВА"

для студентів III та IV курсів
усіх напрямів підготовки
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Наведено тексти та завдання, які дають можливість поліпшити рівень володіння англійською мовою й отримати додаткові знання за темами "Корпоративна культура", "Корпоративна стратегія", "Злиття та поглинання".

Рекомендовано для студентів економічних напрямів підготовки всіх форм навчання.

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Вступ

Навчання іноземній мові в Харківському національному економічному університеті імені Семена Кузнеця носить як комунікативно-орієнтований, так і професійно-спрямований характер. Його завдання визначають комунікативними й пізнавальними потребами фахівців відповідного профілю, а також мають за мету надати можливість набуття комунікативної компетентності, рівень якої на окремих етапах мовної підготовки дозволяє використовувати іноземну мову практично як у професійній діяльності, так і з метою самоосвіти.

До роботи ввійшли три важливі теми сучасного бізнесу: корпоративна культура, корпоративна стратегія та злиття й поглинання. Кожну тему подано за допомогою аутентичних текстів із оригінальних англомовних джерел, які супроводжуються великою кількістю різноманітних лексико-граматичних вправ, питань для дискусій та кейсів, рольових ігор тощо. Основна мета роботи − надати студентам економічних напрямів підготовки матеріал для аудиторної та самостійної роботи.

Запропоновані тексти та завдання призначено як для аудиторної, так і для самостійної роботи. Наведені мовленнєві зразки та вправи сприятимуть усному закріпленню тематичної лексики та розвитку комунікативних компетентностей студентів.

Роботу можна використати студентам III − IV курсів усіх економічних напрямів підготовки всіх форм навчання.

Corporate Culture

Warm-up

1. What is corporate culture?
2. What is meant by strong corporate culture?
3. What is the relationship between strong corporate culture and success?

Intensive Reading

What is Corporate Culture?

Corporate culture refers to the shared values, attitudes, standards, and beliefs that characterize members of an organization and define its nature.

Corporate culture is rooted in an organization's goals, strategies, structure, and approaches to labor, customers, investors, and the greater community. As such, it is an essential component in any business's ultimate success or failure. Closely related concepts, discussed elsewhere in this volume, are corporate ethics (which formally state the company's values) and corporate image (which is the public perception of the corporate culture). The concept is somewhat complex, abstract, and difficult to grasp. A good way to define it is by indirection. The Hagberg Consulting Group does just that on its Web page on the subject. HCG suggests five questions that, if answered, get at the essence:

What 10 words would you use to describe your company?

Around here what's really important?

Around here who gets promoted?

Around here what behaviors get rewarded?

Around here who fits in and who doesn't?

As these questions suggest, every company has a culture − but not all cultures (or aspects of them) help a company reach its goals. The questions also suggest that companies may have a "real culture", discernible by answering these questions, and another one which may sound better but may not be the true one.

Emergence and characteristics

The concept of corporate culture emerged as a consciously cultivated reality in the 1960s alongside related developments like the social responsibility movement − itself the consequence of environmentalism, consumerism, and public hostility to multinationals. Awareness of corporate culture was undoubtedly also a consequence of growth, not least expansion overseas − where corporations found themselves competing in other national cultures. The U.S. competition with Japan, with its unique corporate culture, was yet another influence. So was the rise to prominence of management gurus the dean of whom was Peter Drucker. As corporations became aware of themselves as actors on the social scene, corporate culture became yet another aspect of the business to watch and to evaluate − alongside the "hard" measures of assets, revenues, profits, and shareholder return.

Corporate culture by definition affects a firm's operations. It is also, by definition, something that flows from management downward and outward. In many corporations, the "culture" was set very early on by the charismatic activity and leadership of a founder. But as major tendencies become deeply institutionalized, corporate culture also becomes an institutional habit that newcomers acquire. In actual practice "reinventing" the corporation from the top down, therefore, is difficult to achieve, takes time, and happens only under strong leadership.

Observers and analysts of the phenomenon tend to subdivide culture into its various expressions related either to major constituencies (employees and workers, customers, vendors, government, the community) or to methods or styles of operation (cautious, conservative, risk-taking, aggressive, innovative). A corporate culture may also, by overstepping certain bounds, become suicidal − as the case of Enron Corporation, the energy trader, illustrates. In the Enron culture an aggressive, creative, high-risk style led to fraud and ultimate collapse. Analysis is helpful in understanding how a corporate culture expresses itself in specific areas. However, the concept is social and culture, as the phrase itself implies. It does not lend itself to reorganization by a rearrangement of standard building blocks.

Culture in small businesses

Culture can be a particularly important consideration for small businesses. A healthy company culture may increase employees' commitment and productivity, while an unhealthy culture may inhibit a company's growth or even contribute to business failure. Many entrepreneurs, when they first start a new business, quite naturally tend to take on a great deal of responsibility themselves. As the company grows and adds employees, however, the authoritarian management style that the business owner used successfully in a very small company can become detrimental. Instead of attempting to retain control over all aspects of the business, the small business owner should, as consultant Morty Lefcoe told Nation's Business, strive to "get everybody else in the organization to do your job, while you create an environment so that they can do it".

In a healthy culture, employees view themselves as part of a team and gain satisfaction from helping the overall company succeed. When

employees sense that they are contributing to a successful group effort, their level of commitment and productivity, and thus the quality of the company's products or services, are likely to improve. In contrast, employees in an unhealthy culture tend to view themselves as individuals, distinct from the company, and focus upon their own needs. They only perform the most basic requirements of their jobs, and their main − and perhaps only − motivation is their paycheck.

Since every company is different, there are many ways to develop a culture that works. Following are several main principles that small business owners should consider in order to create a healthy corporate culture:

Prevailing corporate culture begins at the top. Entrepreneurs need to explain and share their vision of the company's future with their workers. "Let your vision for the company become their vision for the company", stated John O'Malley in his article "How to Create a Winning Corporate Culture". He goes on to say that "a company without a vision is reactive in nature, and its management is seldom confident addressing competitive threats and stepping into the future". In addition, small business owners should be aware that their own behavior and attitudes set the standard for the entire workforce. Small business owners who set poor examples in areas such as lifestyle, dedication to quality, business or personal ethics, and dealings with others (customers, vendors, and employees) will almost certainly find their companies defined by such characteristics.

Treat all employees equally. Entrepreneurs should treat all employees equally. This does not mean that business owners can not bestow extra rewards on workers who excel, but it does mean that interactions with all employees should be based on a foundation of respect for them. One particular pitfall in this area for many small business owners is nepotism. Many small businesses are family-owned and operated. But bloodlines should be irrelevant in daily operations. "Successful businesses constantly place "you are no different" expectations on family members they employ", noted O'Malley. "Doing otherwise quickly undermines employees' morale. Showing favouritism in the workplace is like swimming with sharks − you are destined to get bitten."

Hiring decisions should reflect desired corporate culture. The wise small business owner will hire workers who will treat clients and fellow employees well and dedicate themselves to mastering the tasks for which they are responsible. After all, "good attitude" is an essential component of any

healthy corporate culture. But entrepreneurs and their managers also need to make sure that hiring decisions are not based upon ethnic, racial, or gender issues. Besides, businesses typically benefit from having a diverse workforce rather than one that is overly homogeneous.

Two-way communication is essential. Small business owners who discuss problems realistically with their workforce and enlist employees' help in solving them will likely be rewarded with a healthy internal environment. This can be an important asset, for once a participatory and engaging culture has been established, it can help propel a small business ahead of its competition.

On the other hand, problems with the corporate culture can play a major role in small business failures. When employees only perform the tasks necessary to their own jobs, rather than putting out extra effort on behalf of the overall business, productivity declines and growth comes to a halt. Unfortunately, many entrepreneurs tend to ignore the developing cultures within their businesses until it is too late to make needed changes.

In an article for *Entrepreneur*, Robert McGarvey outlined some warning signs of trouble with the company culture, including: increased turnover; difficulty in hiring talented people; employees arriving at work and leaving for home right on time; low attendance at company events; a lack of honest communication and understanding of the company mission; an "us-versus-them" mentality between employees and management; and declining quality and customer satisfaction. A small business exhibiting one or more of these warning signs should consider whether the problems stem from the company culture. If so, the small business owner should take steps to improve the culture, including reaffirming the company's mission and goals and establishing a more open relationship with employees.

Extensive Reading

The Caring Company

A strong "corporate culture" is said to help firms succeed. Does it?

The greeter at a Wal-Mart store might be surprised to know he is living proof of one of the oldest saws of management theory. Instilled by the late Sam Walton Wal-Mart's deeply ingrained corporate culture of frugality, hard work, service to customers and paternalism towards employees has

contributed as much to its success as its slick distribution system and "everyday low prices".

Management thinkers have associated a strong corporate culture − the beliefs, goals and values that guide the behaviour of a firm's employees − with superior long-term performance. The theory is that strong cultures can help workers march to the same drummer; create high levels of employee loyalty and motivation; and provide the company with structure and controls, without the need for an innovation − stifling bureaucracy.

In a new book, John Kotter and James Heskett, both professors at Harvard Business School, report on their four-year study to examine the link between corporate culture and economic performance. To do this, the authors calculated (from survey responses) "culture-strength indices" for over 200 big American firms. Companies such as Wal-Mart, J. P. Morgan and Procter & Gamble scored highest; bankrupt, but still operating, American airlines scored among the worst.

Messrs Kotter and Heskett then tried to correlate the strength of the firms' cultures with their economic performance over an 11-year period. Their analysis did show a positive correlation between strong cultures and long-term economic success, but it was a weaker association than most management theorists would have expected. Strong-cultured firms seemed almost as likely to perform poorly as their weak-cultured rivals. The popular view that a strong corporate culture invariably leads to success, they concluded, was "just plain wrong".

Perhaps they should not have found this so startling. Strong cultures, even those which made a company successful, can also be an obstacle to change − just ask the top managers at the IBM. Too strong a culture can lead to corporate arrogance and insularity. America's General Motors and Britain's BP are two notorious examples. At its worst, a strong but misdirected culture can lead all of a firm's employees to run, hand in hand, in the wrong direction. So what makes a corporate culture a competitive weapon, rather than a liability?

To find out, the researchers dug deeper. Two smaller groups of strong-cultured companies were selected for closer study. The first comprised high-performing firms whose net profits had, on average, increased by three times as much over an 11-year period as those in the second group. A group of 75 investment analysts, who between them had followed the 22 companies in

the two groups, were then asked whether corporate culture had had any impact on each firm's performance.

Overwhelmingly – and surprisingly, since culture is the sort of "soft" information that analysts are thought to ignore – they said that a strong culture had helped the high performers. They were equally convinced, however, that the low performers had been hindered by their cultures.

What is it about the cultures of the high-performing companies that make them successful? The authors' theory is that firms whose cultures seem consistently to produce long-term economic success share one fundamental characteristic: their managers do not let the short-term interests of shareholders override all else, but care equally about all of the company's "stakeholders".

Over the long-term, mind you, the authors believe that these interests converge. "Only when managers care about the legitimate interests of shareholders do they strive to perform well economically over time, and in a competitive industry that is only possible when they take care of those who serve customers – employees." That sort of thinking seemed to go out of fashion in America in the takeover and debt-crazed 1980s, when many firms paid as much attention to the short-term interests of their shareholders or employees often seemed to have been forgotten.

To test their idea, Messrs Kotter and Heskett asked the investment analysts to rate a larger number of firms by how much each valued customers, shareholders and employees. Managers and employees at the companies were also interviewed; their views closely matched those of the analysts. Of these, 12 firms were identified whose cultures stressed all of the three big corporate constituencies − customers, employees and shareholders.

A further 20 were identified which did precisely the opposite (whose managers, according to the analysts, cared mostly about "themselves").

Over the 11-year period, Messrs Kotter and Keskett found that the 12 firms in the first group increased their revenues, on average, by times as much as the 20 companies in the second group; their workforces expanded by eight times as much; and their share prices increased by 12 times as much (by 901 %, against 74 % for the second group). Perhaps most impressively, however, the net profits of firms in the first group soared by an average of 756 % during the period, compared with an average increase of just 1 % for companies in the second group.

Exercises

Ex. 1. Different companies have different cultures and ways of working. Complete these sentences with the items in brackets. One of the items in each section cannot be used.

Dress (uniforms / casual Fridays / weekend clothes)

We don't have to wear business suits at the end of the week. My company has a system of … .

In many banks, staff can't wear what they like. They have to wear … .

Timekeeping (flexitime / part-time / shift work)

For two weeks each month, I work at night. I can't sleep during the day. I hate … .

We have a … system in our office. Some people choose to work from 9 a.m. to 5 p.m.; others work from 10 a.m. to 6 p.m.

Time off (childcare / annual leave / public holiday)

I am so busy at the moment that I worked on New Year's Day, which is a(n)… .

How many days' ... do you get in your company?

Reporting procedures (written report / face to face / e-mail)

We often speak on the phone, but never … .

He uploads a(n) … on the company intranet each month.

Types of meeting (informal / formal / social)

Our department starts every day with a(n) … meeting. It is very relaxed.

Companies have an Annual General Meeting (AGM) once a year. It is a very … meeting, with a lot of people.

Names (job title / first name / family names)

In some countries, the company culture is formal. Staff use …when they speak to each other.

What's your … now? Are you Chief Executive?

Ex. 2. Would you like to work for an organisation which has:

Uniforms? A lot of formal meetings? Casual Fridays? Flexible hours?

Why? Why not?

Ex. 3. Match each phrase (1 − 5) to its explanation (a − e).

A positive company culture ...

1) empowers employees.
2) supports innovation.
3) is customer focused.
4) rewards good performance.
5) encourages trust at all levels.

a) new ideas and change are welcome.
b) relationships between employees and managers are open and honest.
c) staff have a lot of control over their work.
d) the needs and wants of the customers always come first.
e) there is an incentive scheme for efficient employees.

Ex. 4. Work in pairs. Put the five characteristics in Exercise 3 in order of importance for you, and explain why.

Ex. 5. What are the beliefs and values of your organization?

Ex. 6. Read the text and fill in the gaps with the words below.

Cohesive, weak, director, dress, goals, decisions, things, money, culture, union.

Marvin Bower, for years managing 1) ______ of McKinsey & Company and author of *The Will to Manage,* described the informal cultural elements of a business as "the way we do 2) ______ round here". Every business − in fact every organization − has a 3) ______. Sometimes it is fragmented and difficult to read from the outside − some people are loyal to their bosses,

others are loyal to the 4) ______, still others care only about their colleagues who work in the sales territories of the Northeast. If you ask employees why they work, they will answer "because we need the 5) ______". On the other hand, sometimes the culture of an organization is very strong and 6) ______; everyone knows the 7) ______ of the corporation, and they are working for them. Whether 8) ______ or strong, culture has a powerful influence throughout an organization. It affects practically everything − from who gets promoted and what 9) _______ are made, to how employees 10) _____ and what sports they play. Because of this impact, we think that culture also has a major effect on the success of a business.

Do you agree with the ideas expressed in the text? Does corporate culture really mean that much?

Ex. 7. Complete the following sentences with the correct form of the italicized word.

1. *Analyse.*

By ... their results in some detail, professors were able to reach some interesting conclusions.

Investment ... evaluate the investment merits of different stocks and shares.

If you work in financial management, you probably need to have an ... mind.

2. *Bankrupt.*

During a recession, it is not uncommon for people to face ... .

We are almost ... because two of our major customers can't pay us.

3. *Bureaucracy.*

Government departments, hospitals and other large organisations can be very ... .

... seem to enjoy giving you masses of paperwork to deal with.

"Red tape" is a derogatory term for excessive ... .

4. *Character.*

Fast-growing firms are often ... by a strong corporate culture.

The ... of an organisation is formed, to some extent, by its leader.

What are the ... of a weak corporate culture?

5. *Economy.*

What sort of ... system do you have in your country?

Strict financial controls ensure that an organisation's resources are used ... .

Some countries have a mixed ... while others have a high degree of state control.

6. *Innovate.*

Sony has always been seen as an ... in the fielf of hi-fi equipment.

In certain areas of business – for example, high fashion – it is important to be ... and keep coming up with new styles and original designs.

... – or stagnate!

7. *Research.*

Cambridge University has a worldwide reputation in the field of scientific ... .

Pierre works in our R & D department He's one of ten ... .

The effects of the factory environment on shop floor workers have been extensively ... by a well-known industrial psycologist.

8. *Theory.*

Higuchi is an impressive and enternaining ... – we enjoy listening to his ideas.

The study was largerly ..., and therefore of limited value to us.

In ..., there's no reason why we couldn't produce such a revolutionary product, but the costs would probably be prohibitive.

Discussion

A. What do you think?

At the heart of corporate culture – and critical to a company's success – are the "shared values" which, says *Corporate Cultures,* "provide a sense of common direction for all employees and guidelines for their day-to-day behavior". A company like Caterpillar, for example, revolves around "an extraordinary commitment to meeting customer needs" – symbolized in their slogan "24-hour service anywhere in the world". According to Terrence Deal and Allen Kennedy, "often companies succeed because their employees can identify, embrace, and act on the values of the organization".

How do you understand "shared values"? Give some examples.

B. What, in your opinion, are the shared values behind the following businesses?

McDonalds, Rolls-Royce, Christian Dior, Sony, The Walt Disney Company, IBM, Apple.

Corporate Strategy

Warm-Up

1. What is corporate strategy?
2. Why do companies need corporate strategy?
3. How should corporate strategy be decided? What factors – internal and external – need to be taken into consideration?
4. What do you understand by the following:
   - merger and acquisition;
   - nationalization;
   - diversification;
   - demerger?

Intensive Reading

What is Corporate Strategy

The formulation of corporate strategy is a subject which does not lend itself to a generic approach which can be copied and tailored to fit. The various examples are given as such, and are not put forward as best practice. Even some of the definitions and concepts are interpreted in different ways, and individual circumstances will dictate how a specific strategy should be developed and implemented, depending on the circumstances of the organization in question.

Corporate strategy is based on knowing:

- where your organization is today;
- where you want it to be;
- how you want to get there.

The risk of not changing and improving can be as significant as the risks which may affect your plans to develop your business − your competition is almost certainly changing and moving ahead, and you are

likely to be left behind in terms of efficiency, reputation and financial success if you do not learn lessons and appreciate what factors may influence your likely success in delivering your business goals.

These factors all impact on your corporate strategy and business plan. If the purpose of the plan is business development rather than (just) a means of raising finance, it should be the basis for your management system − if the business plan is finalized on Friday afternoon, the management system is how you will implement it from next Monday morning.

Defining corporate strategy is a process. The objective of the process is to combine the activities of the various functional areas of a business in a way which will achieve its organizational objectives.

It is not always written down or explicit, but it should determine how you:

- are organized;
- set objectives, define policies and allocate resources;
- operate on a day-to-day basis (i.e. your operational processes).

The output of the process is a strategic plan which will set the parameters for detailed operational and departmental plans.

Corporate strategy is concerned with deploying the available resources to achieve your objectives whereas tactics are concerned with employing them. Strategy will affect the overall direction of the organization and establish its future working environment.

Corporate strategy defines the markets and the businesses in which an organization chooses to operate. Competitive or business strategy defines the basis on which it will compete. Corporate strategy is typically decided in the context of the organization's mission and vision (what the organization does, why it exists, and what it intends to become).

Competitive strategy depends on an organization's capabilities, strengths, and weaknesses in relation to market characteristics and the corresponding capabilities, strengths, and weaknesses of its competitors. According to Porter, competition within an industry is driven by five basic factors:

- threat of new entrants;
- threat of substitute products or services;
- bargaining power of suppliers;
- bargaining power of buyers;
- rivalry amongst existing firms.

In Top Management Strategy, Benjamin Tregoe and John Zimmerman, of Kepner-Tregoe, Inc, define strategy as "the framework which guides those

choices that determine the nature and direction of an organization. Ultimately, this comes down to selecting products (or services) to offer and the markets in which to offer them".

They propose that executives base these decisions on a single "driving force" of the business. Although there are nine possible driving forces, they say that only one can serve as the basis for strategy for a given business. The nine possibilities are:

- products offered;
- production capability;
- natural resources;
- market needs;
- method of sale;
- size/growth;
- technology;
- method of distribution;
- return/profit.

Strategic Portfolio Management

Companies face a multitude of challenges when designing and executing corporate strategies. Many fail to distinguish a strategic review from the annual budgeting process, or lack adequate processes for strategic planning.

Portfolio strategy and resource allocation

Many companies manage their portfolios through the annual review of a single over-arching budget. But such an approach can turn portfolio management into simply a series of budgeting exercises, hiding the true range of strategic options that a company has and obscuring individual initiatives and their risks. Companies can make high-level corrections this way, but cannot create a truly balanced portfolio.

Senior managers today face an extremely dynamic environment that requires vigilant scrutiny and nimble management practices. Senior strategy executives, in particular, have pointed to the need to better manage uncertainty in strategy development through flexible and adaptive strategic management practices. This requires on-going dialogue on strategic issues, as well as the ability to execute a new strategic plan. Highly effective organizations have few barriers to reallocating resources and implementing

their corporate strategies. However, most organizations struggle to implement their plans, with one year's budget allocation being, by far, the largest predictor of the next year's allocation.

Strategic portfolio management requires companies to generate growth through investment in existing businesses, developing or acquiring new businesses, and exiting unprofitable ones. Doing so effectively requires taking a comprehensive approach to resource allocation.

Strategic management and planning

Companies often struggle with their strategic management and planning processes. They might find it challenging to reconcile short-term tactical moves with long-term strategic goals, or have difficulty building the capabilities needed to execute their strategies.

A critical part of enhancing the planning process is improving overall strategic decision-making capabilities. Left unchecked, subconscious biases such as excessive optimism, groupthink, and loss aversion will undermine strategic decision-making. A recent quantitative survey of more than 2,000 executives, as well as candid conversations with corporate leaders, confirms the significant body of research indicating that cognitive biases affect critical strategic decisions made by even the most experienced managers in the best companies. Behavioral strategy provides a perspective on − and a way to mitigate the impact of − the biases that are often inherent in companies' decision-making processes.

Extensive Reading

Surviving the Deluge

Are the corporate strategies that helped firms soar in the growth years of the 1980s the right ones to pull them through recession?

After seven fat years, the word recession is once again making businessmen fear there will be one or two lean years to come. The first response of many companies will be tactical: cutting jobs, excess capacity and capital spending − and forcing suppliers to do the same by pressing for lower prices. Thus are recessions made. Many American and British firms are already going through that phase, as are some of their flabbier Japanese and continental-European rivals.

This kind of restructuring does not amount to a corporate strategy. It is more a way of dealing with the failure of past strategies. As recession looms, managers should be questioning the policies they pursued while the good times rolled − and asking to which, if any, they should be preparing to return when the good times come back.

The first searchlight should be on the past decade's many marriages.

The merger mania of the 1980s was not a new phenomenon. During the 1960s growth by merger and acquisition was all the rage. In America the number of big deals tripled to 6,100 a year between 1965 and 1969. The 1973−74 oil shock helped to scupper that merger splurge: in 1974 only 2,860 mergers and acquisitions took place in America, and for every two deals there was one divestiture of a failed purchase.

Undaunted, firms still sought to diversify after 1974 in order, they hoped, to offset the risk of doing business in their new dear-oil environment. During the mid-1970s, says Mr Alfred Chandler, a business historian, half of all assets acquired by American firms through merger and acquisition were in industries unrelated to their core businesses. It took a second oil shock, in 1979, to demonstrate the folly of that strategy.

This suggests that some of the miscarriages of the 1980s may be brutally exposed by 1990s mix of Saddamised oil prices and already-slowing economies. Facing the recession test, companies resorted to the following strategies:

• **Strategic alliances** have been one of the most popular policies of the past few years. They were justified as a low-risk alternative to merger or acquisition, or as a cheaper and more culturally sensitive way to enter new markets. Mr. John Kay, a professor at London Business School, says that, too often, such alliances just help both partners to paper over their own weaknesses. If a recession hits one partner harder than the other, the weaker

Partner may now find itself at the mercy of the stronger.

Other alliances may falter during the recession because their participants expected too much from them. Alliances are sometimes an expedient for firms searching for a specific skill, or access to a particular market. But they cannot be relied on to provide the "core competences" (i.e. essential skills and abilities) that companies need to gain a long-term competitive advantage.

The most successful strategic alliances may prove to be those where, if bad times returned, the partners could stand back on their own feet. There is

much to be said for the alliance between Britain's Pilkington, the world's biggest glass-maker, with France's Saint-Gobain and Japan's Nippon Sheet Glass (NSG). All three firms have strong, but diverse, core competences. Pilkington brings its glass-making technologies to the deals; Saint-Gobain its local marketing skills in a number of overseas markets; NSG its manufacturing and management techniques. If a slump in demand undermines this kind of alliance, its partners can at least walk away with their core competences intact. Who knows: they may even start competing with each other, instead of cooperating.

• **Stick to your knitting**. The idea that companies should concentrate on their core competences, and eschew diversification (especially into unrelated businesses), had a good management press in the past decade. That is one reason why so many mergers in the 1980s were of companies in the same industry and why so many corporate empires hastily cobbled together in the 1970s were broken up. But with the onset of slower growth, unfashionable buzzwords such as synergy and diversification are creeping back. Is this a mistake?

Synergy, thinks Mr. Mark Fuller, president of Monitor, a consulting firm based in Cambridge, Massachusetts, will be one of the ideas that firms will be forced to reexamine as economies start to falter. By synergy he does not mean the all-purpose excuse trotted out by 1970s diversifiers, but new ways to exploit existing technologies and skills. In particular, companies will have to get more bang per buck in R&D and product development.

Rather than chasing one-and-for-all breakthroughs, many companies will have to settle for moving into established markets with proven technologies. Note how Honda's motorcycle engine-building skills enabled it to move into cars in the late 1960s and then into lawnmowers and generators.

Royal Dutch/Shell pioneered the idea of bringing together the skills of strategic planners with those of computer whizzes, enabling it to carry out "real-time" planning − the opposite of the bad old habit of inflexible strategic planners churning out unusable five year plans. New-product teams in the 1990s should draw together the skills of design and production engineers, marketers and salesmen – even, as many Japanese firms do, suppliers and customers. Such creative synergies could make for swifter, less accident-prone product launches. Mr. Fuller thinks that such developments will require business structures that are far more flexible than in previous decades. Flexibility, he reckons, will separate this recession's winners and losers.

• **Financial engineering.** Along with plenty of now debt-ridden corporate raiders and buyout specialists, firms like Britain's BTR and Hanson have prospered by imposing stringent financial discipline on companies in mature or declining industries. They made money by stripping away the paraphernalia of corporate self-aggrandizement. Hanson views the coming slowdown as a period of opportunity to pick up lots of cheap companies. It may be disappointed. In this recession many firms will be forced to impose Hanson-style disciplines on themselves. Turnaround opportunities may be few and far between.

• **Globalization** is one management fad that may survive the slump, even if it is more modestly called "geographical diversification". Firms like SmithKline Beecham, ABB and ICI have worked hard over the 1980s to "go global". All now have more than three quarters of their assets outside their home country. They may find it easier to weather a downturn because they have spread their risk across so many markets, and (provided they have not become smothered by a global bureaucracy) they may be better placed to seize any opportunities in an upturn because of their increased knowledge.

• **Quality** has often suffered in past recessions as companies have used the downturn as an excuse to ditch those strategies that they believe add to their costs. Will they do so again? Mr. Tom Peters, an American management guru, believes that this recession will bankrupt any firm that skimps on quality. These days, he points out, higher quality often means making products which are simpler and have fewer parts – or providing a service which offers customers more by being simpler to use. A 1990 Sony Walkman has half as many parts as its less reliable ancestor had when it was launched ten years ago; and in real terms it is now 80 % cheaper to buy. Concentrating on quality can nowadays help companies to cut costs in ways that give them a sustainable competitive advantage − especially in a recession.

ICI Comes to a Fork on the Road to its Future

At 3.30 p.m. on Wednesday, Tony Rodgers left ICI's Millbank headquarters in London and headed in his Daimler for Heathrow Airport. Mr. Rodgers, a Colonel Sanders lookalike who runs the group's Far East activities, did not know whether he was going to depart, however, because the main board was still deciding whether to go ahead with its Grand Plan.

He rang from the airport, was told it had been approved, and flew to Singapore. Soon ICI's Asian managers were converging for a meeting with him. Around the world, the pattern was repeated. David Barnes, head of US operations left Millbank to fly to Wilmington, Delaware, where senior American managers were heading; Sir Denys Henderson, ICI's chairman, and Ronnie Hampel, the chief operating officer, were driven to the group's conference centre just outside London to meet the European bosses. At the same time, word went out that 120,000 letters could be released to employees.

The plan was to split ICI in two: to follow the fashion for demerger by creating two companies that should do better on their own than together. One, ICI Bioscience, would have pharmaceuticals, agrochemicals, seeds and speciality chemicals − the supposedly go-go parts of the group. The rest − mainly paints, industrial chemicals and explosives − would remain in a company called ICI.

For ICI, as for most big companies, decentralization had been a theme of the 1980s. Following the 1980 − 1981 recession, when it went into loss for the first time in its history, Sir John Harvey-Jones, the then chairman, decided that ICI should be totally reshaped. He considered turning the headquarters into a holding company that would allow subsidiaries almost complete autonomy. He decided this would throw away too many cross-benefits, but from then on the group stressed that decentralization was the watchword.

As the ideas crystallized, groups were set up to see just how ICI would be split.

It will take many years − probably until the next recession − before we know whether the division has been a success. What will decide the future is the quality of the management and whether ICI can survive on its own when times get rough. Both Sir Denys and Mr. Hampel retire in 1995. It will be interesting to see whether in the years after that the memories of Tweedle Dum and Tweedle Dee are revered, or reviled.

Exercises

Ex. 1. Read the text about SWOT analysis and fill the gaps with the words below.

SWOT, opportunities, problem, strategy, current, framework, weaknesses, information, spaces, future, square, dangers, criteria, strengths, threats.

All organizations need to have a 1) ______ to help them to analyze their 2) _____ position and then to use that 3) ______ to help them to prepare for the 4) ______. There are many different ways that they can do this. Probably, the best known is what is called the 5) ______ analysis. This very neatly divides the 6) ______ into four areas. It is normally represented as a 7) ______ divided into four parts. At the top you have the S for 8) _____ and the W for 9) ______. And then on the bottom line you have the O for 10) ______ and then T for 11) _____. The idea is that if you analyze a business using these four 12) ______, then you should have the basic information to allow you to map out what the best 13) _____ might be.

Under strengths, you would put the things that it does well, and then under weaknesses, the thing that it does not do quite so well. That leaves two 14) ______: one for opportunities that the company is in a position to exploit, and one for threats − the 15) ______ that it will be exposed to in its markets in the future.

Ex. 2. The Quadrant corporation has prepared a SWOT analysis. Some of the different points that appear in the analysis are listed below. Under which heading would you put them?

1. Our prices are higher than the competition but our margins are lower.
2. Planned EU legislation will force us to invest in new equipment.
3. We have a highly-skilled young staff.
4. We have a strong internet presence.
5. We have discovered a new and potentially cheaper source of supply.
6. Our brands are not recognized internationally.
7. New companies are entering our industry.
8. Analysis shows our products could be successfully introduced in Asia.

Ex. 3. Complete the text with the following words.

Leaders, trends, threat, founder, opportunity, concept.

Mario Moretti Poligato is the 1) ______ of Geox footwear. In the early 1990s he created a new footwear 2) ______: a special membrane that could be used in shoes to prevent perspiration. He approached Nike, Adidas, Timberland, the 3) ______ of the footwear market.

But nobody was interested. So he decided to go it alone and set up his company with five employees. Today the company has 2,800 employees and sales of $350m. Mario thinks the company's next 4) ______ will come from

the clothing market and he plans to produce a range of clothes incorporating the same patented material. The only 5) ______ that Geox faces is the same for all fashion businesses: a sudden shift in consumer 6) _____.

Ex. 4. Replace the missing prepositions in the following sentences.

1. Some companies expect too much … an alliance.
2. Firms which start by co-operating … each other sometimes end up competing … each other.
3. At certain times, the wisest strategy for a company may be to focus … its main activities.
4. It is never a good idea to concentrate too much … research and development at the expense of marketing.
5. The Coca-Cola company, which is based … the US, depends greatly … marketing.
6. If strict controls are imposed … a company, its profitability can often be improved.
7. Multinational companies spread their financial risks … many markets.
8. When faced … recession, companies adopt various tactics to survive.

Ex. 5. Read the questions from shareholders at the annual meeting of Topaz, a car company. Complete the chief executive's answers with the words and expressions below.

Strategies, resources, strategic move, planning, resource allocation.

1. − Why has the company bought its rival, Rivera?
   − This was a … to broaden our customer base.

2. − Some of Topaz's plants have very low productivity. What are you doing about this?
   – We have taken steps to ensure that our … are used more effectively. This is an important part of our strategic … process.

3. − Why are you closing one of the plants?
   − This is an issue of … . We don't have infinite financial resources and we want to concentrate investment on the most productive plants.
4. − Was this the only goal that was considered? Did you also look at the possibility of being a mass producer of vehicles?
   − We looked at a number of different … and decided that the high-tech option was the best one to follow.

How would you answer these questions?

Ex. 6. Match the italicized phrases (1 − 5) to the expressions below that refer to the same idea.

Withdraw from, dominate, defend, attack, establish a foothold.

Coffeeway (CW) is a successful American chain of coffee shops. It wanted to (1) *aggressively enter* the Chinese coffee shop market, with shops all over China. CW signed an agreement with a partner, Dragon Enterprises (DE). CW and DE decided to (2) *start by opening just one coffee shop* in Shanghai in order to test the market. This was very successful, so CW and DE decided to open shops all over China. It took CW and DE five years to (3) *be the biggest in* the market, with a 70 per cent market share among coffee shop chains in China. One of their competitors, California Coffee, tried to (4) *protect* its market share by cutting prices. But this strategy did not work, and California Coffee later sold its outlets to CW/DE and decided to (5) *leave* the market.

Discussion

A. Which of the following factors do you think a company considers when it undergoes the strategic planning process? Put them in order of importance.

Product development, economic forecasts, competitors, technology, human and financial resources, fashion and trends, current sales.

B. Read the following definitions of corporate strategy and comment upon them.

According to Alfred Chandler, corporate strategy is the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Andrews amended and amplified this definition by saying that corporate strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

Both definitions define strategy in terms of intentions. Still some authors argue that organizations may sometimes pursue strategies they never intended.

Mergers and Acquisitions

Warm-Up

1. How would you define a merger? How does it differ from an acquisition?
2. Think of three or four big international mergers in recent years. Have they been successful?
3. What kind of things do you think can lead to problems or even failure in international mergers and acquisitions?
4. Whose shareholders benefit more in a takeover: those of an acquiring company or those of the one that is being acquired?
5. How might corporate culture affect the success or failure of a merger?
6. What do acquiring companies need to do to ensure success?

Intensive Reading

Mergers and acquisitions are both aspects of strategic management, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.

M&A can be defined as a type of restructuring in that they result in some entity reorganization with the aim to provide growth or positive value. Consolidation of an industry or sector occurs when widespread M&A activity concentrates the resources of many small companies into a few larger ones, such as occurred with the automotive industry between 1910 and 1940.

The distinction between a "merger" and an "acquisition" has become increasingly blurred in various respects (particularly in terms of the ultimate economic outcome), although it has not completely disappeared in all situations. From a legal point of view, a merger is a legal consolidation of two companies into one entity, whereas an acquisition occurs when one company takes over another and completely establishes itself as the new owner (in which case the target company still exists as an independent legal entity controlled by the acquirer). Either structure can result in the economic and financial consolidation of the two entities. In practice, a deal that is a merger for legal purposes may be euphemistically called a "merger of equals" if both

CEOs agree that joining together is in the best interest of both of their companies, while when the deal is unfriendly (that is, when the management of the target company opposes the deal) it is almost always regarded as an "acquisition".

An acquisition or takeover is the purchase of one business or company by another company or other business entity. Such purchase may be of 100 %, or nearly 100 %, of the assets or ownership equity of the acquired entity. Consolidation occurs when two companies combine to form a new enterprise altogether, and neither of the previous companies remains independent. Acquisitions are divided into "private" and "public" acquisitions, depending on whether the acquire or merging company (also termed a target) is or is not listed on a public stock market. Some public companies rely on acquisitions as an important value creation strategy. An additional dimension or categorization consists of whether an acquisition is friendly or hostile.

Achieving acquisition success has proven to be very difficult, while various studies have shown that 50% of acquisitions were unsuccessful. "Serial acquirers" appear to be more successful with M&A than companies who only make an acquisition occasionally.

Whether a purchase is perceived as being a "friendly" one or a "hostile" depends significantly on how the proposed acquisition is communicated to and perceived by the target company's board of directors, employees and shareholders. It is normal for M&A deal communications to take place in a so-called "confidentiality bubble" wherein the flow of information is restricted pursuant to confidentiality agreements. In the case of a friendly transaction, the companies cooperate in negotiations; in the case of a hostile deal, the board and/or management of the target is unwilling to be bought or the target's board has no prior knowledge of the offer. Hostile acquisitions can, and often do, ultimately become "friendly", as the acquirer secures endorsement of the transaction from the board of the acquire company. This usually requires an improvement in the terms of the offer and/or through negotiation.

"Acquisition" usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger and/or longer-established company and retain the name of the latter for the post-acquisition combined entity. This is known as a reverse takeover. Another type of acquisition is the reverse merger, a form of transaction that enables a private company to be publicly listed in a relatively short time frame. A reverse merger occurs when a privately held company (often one

that has strong prospects and is eager to raise financing) buys a publicly listed shell company, usually one with no business and limited assets.

The combined evidence suggests that the shareholders of acquired firms realize significant positive "abnormal returns" while shareholders of the acquiring company are most likely to experience a negative wealth effect. The overall net effect of M&A transactions appears to be positive: almost all studies report positive returns for the investors in the combined buyer and target firms. This implies that M&A creates economic value, presumably by transferring assets to management teams that operate them more efficiently.

There are also a variety of structures used in securing control over the assets of a company, which have different tax and regulatory implications:

The buyer buys the shares, and therefore control, of the target company being purchased. Ownership control of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going concern, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.

The buyer buys the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to "cherry-pick" the assets that it wants and leave out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future, unquantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage. A disadvantage of this structure is the tax that many jurisdictions, particularly outside the United States, impose on transfers of the individual assets, whereas stock transactions can frequently be structured as like-kind exchanges or other arrangements that are tax-free or tax-neutral, both to the buyer and to the seller's shareholders.

The terms "demerger", "spin-off" and "spin-out" are sometimes used to indicate a situation where one company splits into two, generating a second company which may or may not become separately listed on a stock exchange.

As per knowledge-based views, firms can generate greater values through the retention of knowledge-based resources which they generate and

integrate. Extracting technological benefits during and after acquisition is ever challenging issue because of organizational differences. Based on the content analysis of seven interviews authors concluded five following components for their grounded model of acquisition:

1. Improper documentation and changing implicit knowledge makes it difficult to share information during acquisition.
2. For the acquired firm symbolic and cultural independence which is the base of technology and capabilities is more important than administrative independence.
3. Detailed knowledge exchange and integrations are difficult when the acquired firm is large and high performing.
4. Management of executives from the acquired firm is critical in terms of promotions and pay incentives to utilize their talent and value their expertise.
5. Transfer of technologies and capabilities is the most difficult task to manage because of complications of acquisition implementation. The risk of losing implicit knowledge is always associated with the fast pace acquisition.

An increase in acquisitions in the global business environment requires enterprises to evaluate the key stakeholders of acquisition very carefully before implementation. It is imperative for the acquirer to understand this relationship and apply it to its advantage. Retention is only possible when resources are exchanged and managed without affecting their independence.

Extensive Reading

After the Deal

Doing deals is easy. As mergers hit record levels, now comes the hard part.

The merger wave, which in 1998 was a predominantly American affair, is now sweeping over Europe. Cross-border deals, such as Daimler-Benz's takeover of Chrysler, accounted for a quarter of mergers in 1998; more are expected as firms go global.

In many cases this consolidation makes sense − at least on paper. But just as certain as the flow of deals is that most will be failures. Study after study of past merger waves has shown that two out of every three deals have not worked.

Success in the future will depend more than ever on the merged companies' ability to create added value. And that will depend mainly on what

happens after the deal has been done. Yet many deal makers have neglected this side of the business. Once the merger is done, they simply assume that computer programmers, sales managers and engineers will cut costs and boost revenue according to plan.

Yet, just when post-merger integration has become decisive, it has become harder to pull off. Not only are modern firms complicated global affairs, but executives are putting today's deals together in a hurry. Few give enough thought to the pitfalls.

One set of obstacles is "hard" things, such as linking distribution or computer systems. In particular, many recent mergers have been undone by the presumption that information technology is easy to mesh together.

More difficult are the "soft issues"; and here the same word keeps popping up − culture. People never fit together as easily as flow charts. Culture permeates a company, and differences can poison any collaboration. After one large US merger, the two firms had a row over the annual picnic: employees of one company were accustomed to inviting spouses, the others were totally against the idea. The issue was resolved by inviting spouses only in alternate years.

Two new things have made culture clashes harder to manage. The first is the growing importance of intangible assets. In an advertising agency, for instance, most of the value can walk out of the door if key people leave.

The second new thing is the number of cross-border mergers. In this area DaimlerChrysler may prove to be an interesting case study in differing management cultures. One worry is compensation: Chrysler's pay levels are much higher than the German company's. So a US manager posted to Stuttgart may end up reporting to a German manager who is earning half his salary.

Nor is pay the only difference. Chrysler likes to pride itself on its flexible approach, where speed and ingenuity are prized. When designing new models, teams of engineers, designers and marketing people work on each model. Daimler-Benz has a more traditional structure, in which designers and marketing people mix less and engineers are in charge.

Some recent deals will no doubt prove a stunning success. Nevertheless, there are three ominous signs about the current merger boom. First, much of the attention seems to be on the deal itself rather than the integration that must follow. Second, many deals are rushed. And third, mergers have too often become a strategy in their own right.

So the things that are so impressive about today's mergers − their size, complexity and daring − could count against them if the economy turns down.

Exercises

Ex. 1. Decide whether these statements are true or false. Find the part of the text that gives the correct information.

1. The majority of mergers take place in the USA.
2. Many international mergers are failures.
3. Most attention is concentrated on what to do after the merger is completed.
4. Many mergers are done too quickly.
5. Connecting different computer systems together is not usually a problem.
6. High salaries were given to Chrysler managers as compensation for the merger with Daimler-Benz.
7. Chrysler has won many prizes for its production methods.
8. Engineers have a high status at Daimler-Benz.

Ex. 2. Choose the best explanation for each extract from the text.

1. "The merger wave is now sweeping over Europe".

a) a lot of American companies are merging with European ones;

b) there has been a big increase in the number of mergers involving European companies.

2. "Success will depend on the merged companies' ability to create added value".

a) they must try to make sure the share price goes up after the merger;

b) they must try to reduce costs and increase revenue in the new merged company.

3. "Post-merger integration has become decisive".

a) the way merged companies work together as one company is extremely important;

b) it is necessary to take quick decisions after the merger is competed.

4. "The growing importance of intangible assets".

a) some assets are carefully protected and cannot be touched;

b) people are the most valuable asset in many companies.

Ex. 3. Find a word or phrase in the text that has a similar meaning:

a) mergers between companies from two different countries:

c*ross*-b*order* d*eals*;

b) when one company buys another:
t_________;
c) when a company becomes more international:
g_________ g__________;
d) people who negotiate the terms of a merger:
d_________ m_________;
e) reduce the amount of money spent:
c_________ c_________;
f) increase income from sales:
b_________ r_________;
g) work that needs to be done after the merger agreement:
p_________-m_________ i_________;
h) sent to a job in another country:
p_________.

Ex. 4. Choose the best explanation for each word or phrase from the text.

pull off
a) stop;
b) succeed;

pitfalls
a) problems;
b) accidents;

mesh together
a) combine;
b) mix up;

popping up
a) exploding;
b) coming up;

permeates
a) destroys permanently;
b) goes into every part;

pride itself
a) be pleased with yourself for something;
b) tell everyone about your good points;

ominous
a) easy to predict;
b) predicting something bad;

in their own right
a) by themselves;
b) in a correct way.

Ex. 5. Complete these sentences with an appropriate preposition.

1. Cross-border deals accounted *for* a quarter of mergers in 1998.
2. Two _______ every three deals have not worked.
3. Success will depend _______ the merged companies' ability to create added value.
4. They assume sales managers and engineers will cut costs according _______ plan.

5. Executives are putting deals together _______ a hurry.

6. Employees of one company were accustomed _______ inviting spouses to the annual picnic.

7. An American manager may report _______ a German boss.

8. In Daimler-Benz, engineers are _______ charge.

Ex. 6. Match up these words with the definitions below.

horizontal integration backward integration forward integration vertical integration	to diversify (diversification) to innovate (innovation) to merge (a merger)	a takeover bid synergy a raid

1) designing new products and bringing them to the market;
2) to expand into new fields;
3) to unite, combine, amalgamate, integrate or join together;
4) buying another company's shares on the stock exchange, hoping to persuade enough other shareholders to sell to take control of the company;
5) a public offer to a company's shareholders to buy their shares, at a particular price during a particular period, so as to acquire a company;
6) to merge with or take over other firms producing the same type of goods or services;
7) joining with firms in other stages of the production or sale of a product;
8) a merger with or the acquisition of one's suppliers;
9) a merger with or the acquisition of one's marketing outlets;
10) combined production that is greater than the sum of the separate parts.

Ex. 7. Circle the word that does not belong in each horizontal group.

1)	alliance	foothold	partnership	merger
2)	talks	negotiations	operations	discussions
3)	corporation	company	network	firm
4)	components	profits	money	capital
5)	to plunge	to plummet	to fall	to increase
6)	research	deal	agreement	understanding
7)	to acquire	to withstand	to purchase	to buy

Ex. 8. Choosing from the seven words which you circled in the previous exercise, complete the following sentences taken from the business press.

1. Pilkington, the UK-based glass maker, was one of the first western countries to gain a _______ in China after the "open door policy" in 1979.

2. Hyundai Electronics America, a US subsidiary of the Hyundai group of South Korea, has agreed to acquire the semiconductor _______ of AT&T Global Information Solutions, for more than $300 m.

3. Amstrad, the loss-making consumer electronics group, unable to _______ fierce competition, is to stop selling its computers and fax machines in high street shops.

4. Volvo, the Swedish car and commercial vehicle maker, has announced that Asia was Volvo's "number one priority" for geographic expansion. It had carried out _______ with China National Heavy Truck and Shandong Automotive for joint ventures for the production of both trucks and _______ in Shandong province. Volvo was now waiting for official approval for the project from Beijing.

5. Lufthansa, the German national airline, and Thai Airways International, created the largest international _______ of air services yesterday when they signed a strategic alliance. Lufthansa's weekly passenger flights to Thailand will _______ to 20 in a year's time from 15 now.

Ex. 9. Match the expressions to their definitions and then use the expressions to complete the article, rearranging the paragraphs into a logical order. (One of the expressions is used twice.)

1) alliances	a) people involved in a sexual or romantic relationship
2) lovers	b) relationships formed between countries or organizations
3) liaisons	c) insect trap known for being very difficult to get out of
4) one-night stands	d) sexual or romantic relationships
5) spiders web	e) lasting only a short time

Dangerous _________

A. Equally, does IBM really understand where it figures in Toshiba's strategy of _______ with all and sundry? The same applies within the US itself, to IBM's place in Apple's growing _______ of relationships − and vice versa.

B. AMD, in its trumpeting of this week's agreement with Fujitsu, seemed to take little account of the Japanese company's extensive network of relationships with western companies, including ICL, Siemens and Amdahl. Does it understand how it features, and could be manipulated, in Fujitsu's global battle against IBM?

C. _______ may give companies unprecedented flexibility. But, by the same token, they render them unstable. To revert to analogies from personal life, it is far easier to control one's destiny if one has just a couple of mutually compliant _______ than if one tries to run a series of ever-changing _______.

Discussion

Which of the following industries tend to be vertically integrated, either forward or backward, or both?

radio and television manufacturers	furniture manufacturers
electricity and water companies	bicycle manufacturers
car (automobile) makers	oil (petrol) companies
food producers	newspapers

Questions

The post-merger integration is the hardest but most important part of the deal. Here is a list of some issues that must be considered to enable things to work well after a merger has taken place. Which are the most important? Can you add others? What factors need to be taken into account when coming to decision?

Who will be the chief executive of the new company?

Where will the HQ be?

If it is a merger between companies from different countries with different languages, what should the company language be?

On which stock exchange should the new company be listed?

Where there is duplication, e.g. two centres for R&D, should one be closed?

Should key managers be moved to different parts of the merged company to speed up integration?

Role Play

Differences in pay levels between the two companies in a merger can cause problems. Imagine you are members of the Human Resources departments of the two companies. Hold a meeting to discuss this problem and try to suggest some solutions.

Avoid Merger Most Horrid

Sensitivity to language and culture is needed by Anglo-American companies attempting German takeovers.

When a brash, aggressive US group bought a 180-year-old, family-owned Mittelstand company with a strong culture and well-known brand, it did not take long for the deal to turn sour. Within weeks, senior management at the German company had left, and the second-line managers were dashing for the exits. The Americans used first names with everybody, spoke English and closed the canteen in the belief that staff could eat sandwiches on the run. They did not. Germans like hot lunches. The last straw was a morning "cheerleader" session, when German staff were expected to take part in a rousing two-minute "we are the best" call to arms.

This is just one example of a recent merger involving a Mittelstand company that failed. "It was a cross-border catastrophe", says Valerie Lachman of M&A International, a consultancy that specialises in advising the Mittelstand − Germany's thousands of small and medium-sized companies. "The Americans were not aware of the big cultural differences and they didn't want to spend time trying to understand the German company and integrating it into their operations", says Ms Lachman. "The whole deal quickly unravelled. If buyers don't do their homework properly, there will be more failed mergers."

There were almost 2,000 acquisitions involving German companies last year. About 600 of them involved the sale of a German company to foreign buyers, the bulk of them US or British. But the gulf in understanding between a typical Anglo-American concern used to a highly competitive capitalist marketplace, and a Mittelstand company with 65 employees and a turnover of DM20 million (£6.2 million) is problematic for potential partners.

The Anglo-American buyer is financially oriented, looking to "get bigger" in Europe and has targeted Germany, the largest and most technically

sophisticated market in Europe. It needs a high return on investment − probably close to 20 per cent − and the lowest possible purchase price. Above all, it wants figures from the target company. But Mittelstand owners find it hard to part with figures. "They have a strong desire for financial privacy," − says Ms Lachman. "Very often it is because the owner does not really understand financial matters." These owner-managers, often engineers, usually have a detailed knowledge of the technical side of a business they may have built from scratch over 40 years. They are proud of their companies and probably control most aspects of the firm's running. But when it comes to the accounting, this has usually been in the hands of their tax advisers. "You have to understand that they usually don't want to be seen to be making too much money because it gets taxed heavily," Ms Lachman adds.

Exercises

Ex. 1. Fill in the blanks with the words & expressions from the box below.

Launching a Bid

There is excitement when Company X is attempting to gain control of Company Y in a takeover bid, perhaps by increasing its holding or stake in company Y if it already owns shares in Y.

Company X makes or launches a bid against company Y, the takeover target.

If Company Y does not want to be taken over, the bid is hostile.

Other ways of saying that one company is taking over another are to say that one company is acquiring another or making an acquisition.

hostile takeover bid	made an acquisition	
target	acquired	launched

Tokay, the world's oldest wine appellation, is being (1)_______ by a Japanese distiller and a French insurance group.

Medeva, the fast-growing pharmaceutical group, rose 19 p to 224 p on the news that it has (2)_______ another _______ in America. Medeva is to buy Adams Laboratories, a Texas drugs manufacturer, for $77.2 million.

TT Group, the packaging company, has (3)_______ its second (4)_______ in little more than a year, with a £6.8 million offer for Magnetic

Materials Group, the magnetic components manufacturer. TT won a long running bid battle for Crystalate last August. The 37 p share offer is equal to the price paid by TT on Tuesday for a 9.4 per cent stake, bringing its total holding in the (5)_______ company to 16.2 per cent. This compares with a market price of 41 p before and after the announcement of the bid. Magnetic's board rejected the bid as "derisory, unsolicited, unwelcome, and totally inadequate".

Ex. 2. Bid types. In the last example above, Magnetic's board rejected TT's bid as "derisory, unsolicited, unwelcome, and totally inadequate". Match these adjectives, and others describing takeover bids, to their meanings.

	abortive		unsought
	contested		unwanted
	derisory		fought against
If a bid is	inadequate	it is	insultingly low
	sweetened		not enough
	unsolicited		unsuccessful
	unwelcome		improved

Ex. 3. Fill in the gaps with the words from the box below.

Predators, raiders, and white knights

A. The takeover process is often described in terms of one animal hunting another: a company or individual seeking to take over another company may be referred to as a **predator**, and the target company as the **prey**.

Predators are also referred to as raiders or **corporate raiders**.

a corporate raider	greenmail (2)
fend off	a white knight
prey	predators
poison pill	ward off

The company, and the sector, have deep problems to cope with and an uncertain future ahead. In their present state, they are sitting ducks for

European or American (1)_______ looking for an entree to the British insurance market.

The group could fall (2)_______ to one of the industry's hungrier predators.

Lee Iacocca, Chrysler's boss, explored the possibility of a takeover of General Motors, on behalf of a (3)_______ in 1987, but dropped the idea after deciding "it might be easier to buy Greece".

B. A company wishing to resist, **ward off**, or **fend off** being taken over has a number of options. It may devise plans that give existing shareholders special rights, or it may make itself less attractive to bidders by selling off a valuable part of the company, or holding on to an unattractive one. Actions like these are **poison pills**.

Or it may persuade a friendly partner, **a white knight**, to take a stake in the company, thus preventing a complete takeover by a hostile bidder.
Bidders may agree to withdraw their bid if paid enough money for the shares they hold in the target company. This is **greenmail**.

The agreement will help Navigation Mixte (4)_______ potential raiders.

London Weekend Television's attempt to attract (5)_______ to help it (6)_______ the unwanted takeover bid from Granada has collapsed. US West, the giant US telephone company and one of the largest cable operators in the UK, was interested in a stake of 29.9 per cent in the London ITV company − the largest amount possible without triggering a full bid.

UK merchant banks do not appear attractive at the moment. Indeed, TSB's chairman, Sir Nicholas Goodison, perhaps should consider holding on to Hill Samuel: it is a (7)_______ against predators who might want to swallow the whole group.

(8)_______ transactions, in which the target of a takeover attempt buys off the hostile bidder by repurchasing any shares that it has acquired. (9)_______ means that these shares are repurchased by the target at a price which makes the bidder happy to agree to leave the target alone.

Discussion

A. Read the 15 sentences below, and classify them under the following three headings. (One sentence probably falls under two categories.)

Arguments in favour of mergers or takeovers Arguments against mergers or takeovers The advantages of a raid as compared to a takeover bid

1. After a hostile takeover, the former top executives will leave or be replaced, so all that remains is the capital equipment.
2. A larger company will have a stronger position on the market.
3. Conglomerates may become unmanageable and fail to achieve synergy.
4. Contrary to a common belief, a company's optimum market share is rarely very large.
5. Diversification dilutes a company's shared values (such as quality, service, innovation, and so on).
6. Entering new markets with new brands is generally slow, risky and expensive.
7. In many countries, if all the shareholders agree to sell, the bidder is obliged to buy 100 % of the shares, and cannot stop at 50 % plus one.
8. Individual companies might be more efficient if they didn't have to deal with a conglomerate's central management.
9. Innovation is expensive and risky, and sometimes more expensive than acquiring or merging with other successful innovative firms.
10. In this case, it is not necessary to pay more than the existing market price.
11. It may permit the rationalization and optimization of the use of production facilities and invested capital, and enable economies of scale.
12. One can attempt to buy a large quantity of shares through several brokers as soon as the market opens, before speculators notice the rising price and join in.
13. Success comes from having a long term competitive advantage, i.e. producing a cheaper or better product than those of competitors, or focusing on a narrow market segment.
14. This is a way for a company to reduce competition.
15. Traditionally, the best companies have always beaten their competitors rather than buying them.

B. Do you know of a firm in your country that has been taken over by a foreign company? What happened? Was the takeover a success?

Leveraged Buyouts

One indication that the people who warn against takeovers might be right is the existence of leveraged buyouts.

In the 1960s, a big wave of takeovers in the US created conglomerates, i.e. collections of unrelated businesses combined into a single corporate structure. It later became clear that many of these conglomerates consisted of too many companies and not enough synergy. After the recession of the early 1980s, there were many large companies on the US stock market with good earnings but low stock prices. Their assets were worth more than the companies' market value.

Such conglomerates were clearly not maximizing stockholder value. The individual companies might have been more efficient if liberated from central management. Consequently, raiders were able to borrow money, buy badly-managed, inefficient and underpriced corporations, and then restructure them, split them up, and resell them at a profit.

Conventional financial theory argues that stock markets are efficient, meaning that all relevant information about companies is built into their share prices. Raiders in the 1980s discovered that this was quite simply untrue. Although the market could understand data concerning companies' earnings, it was highly inefficient in valuing assets, including land, buildings and pension funds. Asset-stripping − selling off the assets of poorly performing or under-valued companies − proved to be highly lucrative.

Theoretically, there was little risk of making a loss with a buyout, as the debts incurred were guaranteed by the companies' assets. The ideal targets for such buyouts were companies with huge cash reserves that enabled the buyer to pay the interest on the debt, or companies with successful subsidiaries that could be sold to repay the principal, or companies in fields that are not sensitive to a recession, such as food and tobacco.

Takeovers using borrowed money are called leveraged buyouts or LBOs. Leverage means having a large proportion of debt compared to equity capital. (Where a company is bought by its existing managers, we talk of a management buyout or MBO.) Much of the money for LBOs was provided by the American investment bank Drexel Burnham Lambert, where Michael Millken was able to convince investors that the high returns on debt issued by risky enterprises more than compensated for their riskiness, as the rate of default was lower than might be expected. He created a huge and liquid market of up to 300 billion dollars for junk bonds. (Milken was later arrested

and charged with 98 different felonies, including a lot of insider dealing, and Drexel Burnham Lambert went bankrupt in 1990).

Raiders and their supporters argue that the permanent threat of takeovers is a challenge to company managers and directors to do their jobs better, and that well-run businesses that are not undervalued are at little risk. The threat of raids forces companies to put capital to productive use. Fat or lazy companies that fail to do this will be taken over by raiders who will use assets more efficiently, cut costs, and increase shareholder value. On the other hand, the permanent threat of a takeover or a buyout is clearly a disincentive to long-term capital investment, as a company will lose its investment if a raider tries to break it up as soon as its share price falls below expectations.

LBOs, however, seem to be largely an American phenomenon. German and Japanese managers and financiers, for example, seem to consider companies as places where people work, rather than as assets to be bought and sold. Hostile takeovers and buyouts are almost unknown in these two countries, where business tends to concentrate on long-term goals rather than seek instant stock market profits. Workers in these companies are considered to be at least as important as shareholders. The idea of a Japanese manager restructuring a company, laying off a large number of workers, and getting a huge pay rise (as frequently happens in Britain and the US), is unthinkable. Lay-offs in Japan are instead a cause for shame for which managers are expected to apologize.

Exercises

Ex. 1. Complete the following sentences, which summarize the text above.

1. The fact that many large conglomerates' assets were worth more than their stock market valuation demonstrated that …
2. Raiders bought conglomerates in order to ...
3. Raiders showed that the stock market did not ...
4. Raiders were particularly interested in ...
5. Investors were prepared to lend money to finance LBOs because …
6. Raiders argue that the possibility of a buyout …
7. A negative consequence of the threat of a takeover or buyout ...
8. Hostile takeovers and buyouts are rare in Germany and Japan because ...

Ex. 2. Fill in the gaps with the words below.

Returns, margins, sponsor, leverage, interest, win-win, banks.

LBOs have become very attractive as they usually represent a 1) ____ situation for the financial 2) _____ and the 3) _____. The financial sponsor can increase the rate of 4) _____ on his equity by employing the 5) _____ . Banks can make substantially higher 6) _____ when supporting the financing of LBOs as compared to usual corporate lending, because the 7) _____ chargeable is that much higher.

Discussion

You have read arguments both for and against leveraged buyouts. Which do you find the most persuasive? Can you think of any further arguments either for or against?

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