UNIVERSITY OF LIVERPOOL

MKIB 351: Global Strategic Management

Lecture 6 - Corporate-level strategies – Part 2

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Revised Lectures' schedule

- Lecture 7 (13/03/2023)
  - Linking corporate and global strategy
  - Strategic flexibility
  - De-internationalization
- Lecture 8 (20/03/2023)
  - Revision lectures 1 to 7
  - Explanation of Assessment (up to Corporate-level strategies section)
- Lecture 9 (17/04/2023)
  - Corporate Governance Characteristics
  - External Stakeholders Characteristics
  - Organisational Learning
- Lecture 10 (24/04/2023)
  - Strategy Implementation
  - Revision lectures 9 and 10
  - Explanation of Assessment (remaining sections)

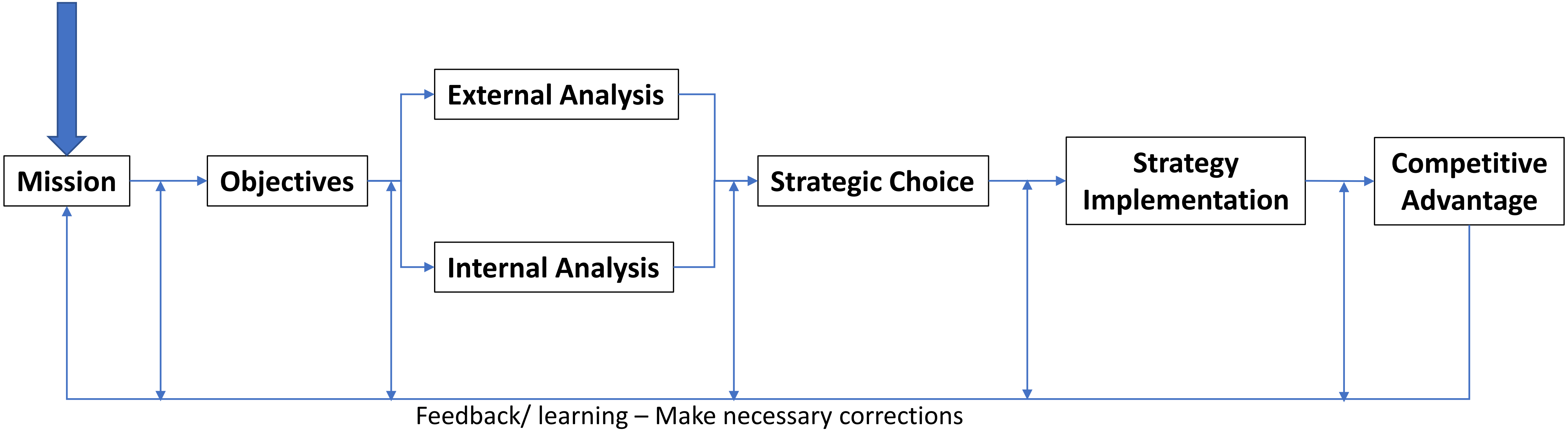
- Seminar 4 (Week 7)
  - Discussion of "TikTok's Rise to Global Markets"
    - More discussion on AAA Framework - Levels/ sublevels for adaptation and kind of aggregation strategy
    - Discussion on M&A strategy
- Seminar 5 (Week 9)
  - Identification of Board's characteristics that affecting global strategic formulation
- Seminar 6 (Week 11)
  - Revision /Explanation of Assessment

Agenda

- Strategic Alliances
  - Reasons to form an alliance
  - Reasons not to form an alliance
  - Forming an alliance
  - Evolution of alliances
  - Performance of Alliances
- Mergers and Acquisitions (M&As)
  - The Variety of Cross-Border M&As
  - Cross-border M&As
  - Motives for M&As
  - Additional motives for cross-border M&As
  - Problems in achieving acquisition success
  - M&A characteristics that affect performance
  - Effective acquisitions

Strategic management process

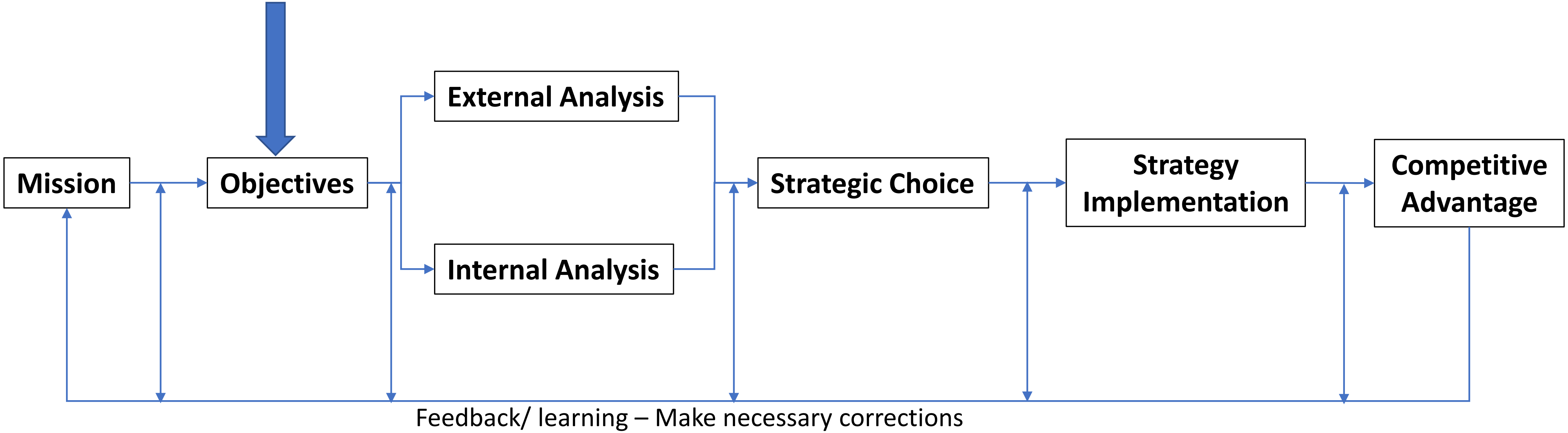
The strategic management process begins when a firm defines its mission.



From Barney and Hesterly (2006)

Strategic management process

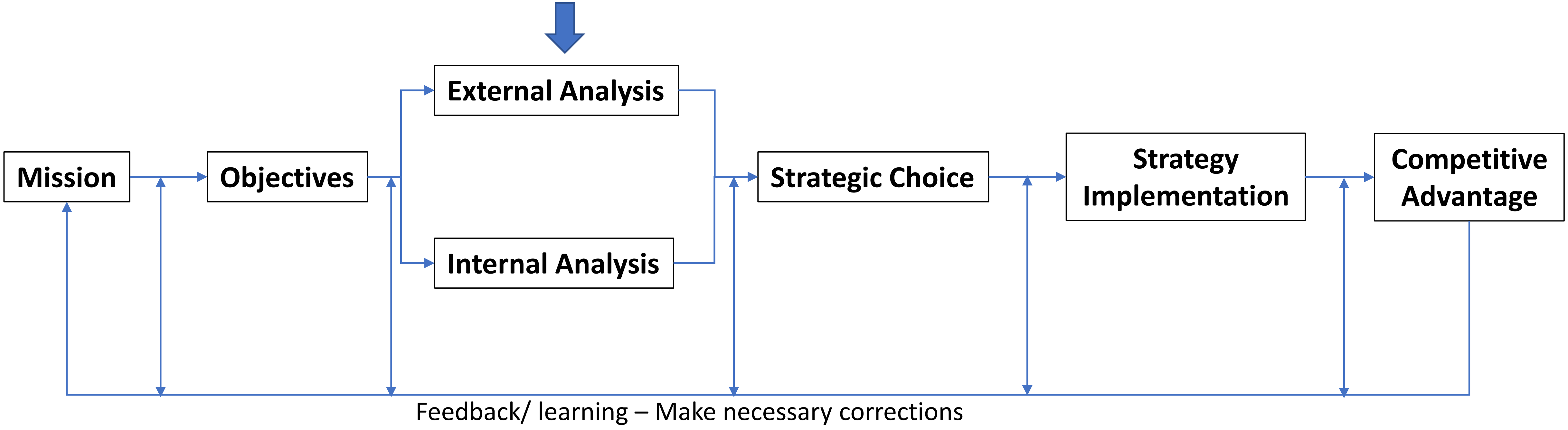
Objectives are based on firm's mission



From Barney and Hesterly (2006)

Strategic management process

Identify the critical threats and opportunities in firm's competitive environment.
Identify its organizational strengths and weaknesses.

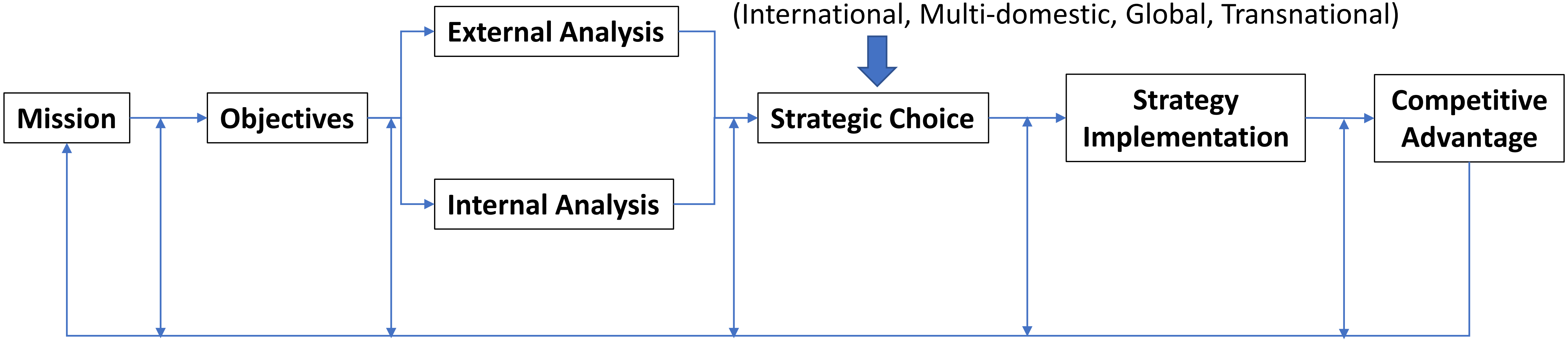


From Barney and Hesterly (2006)

Strategic management process

Given that a firm is equipped with a mission, objectives, and completed external and internal analyses, a firm is ready to formulate strategy for gaining competitive advantage.

What global strategy (AAA framework)
How (method) of going global (Internationalization theories: e.g. Uppsala, Network, Born Global)
Resulting firm types depending on International Strategies (International, Multi-domestic, Global, Transnational)

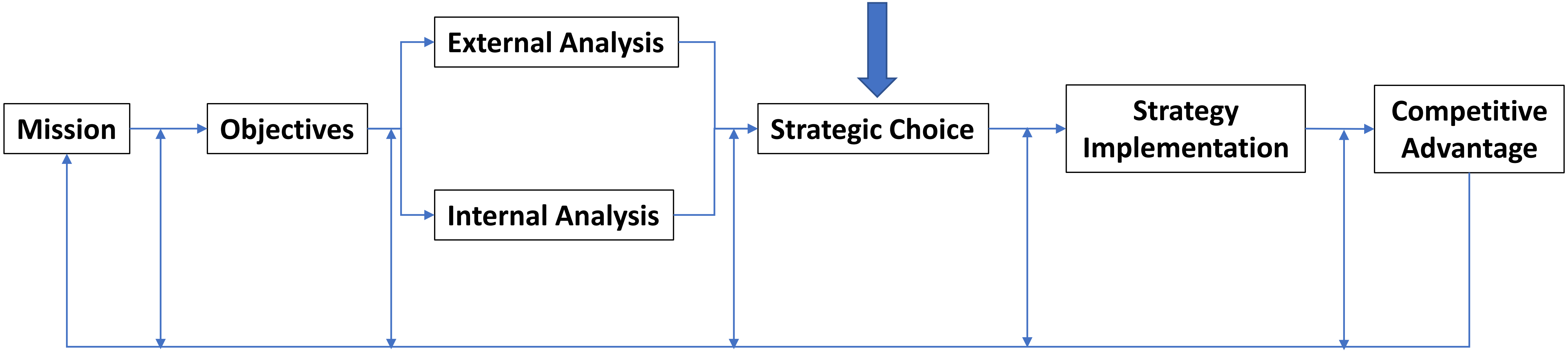


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Strategic management process

Corporate-level strategy (corporate strategy)
How a firm creates value through the configuration and coordination of its multimarket (global and local) activities.
Expansion strategies: Integration, Diversification, Cooperation



Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Strategic Alliances

- Are voluntary agreements of cooperation between firms.
- Types of strategic alliances:
  - Nonequity alliance
    - Cooperation between firms is managed directly through contracts, without cross-equity holdings or an independent firm being created.
      - Firms agree to work together to develop, manufacture, or sell products or services.
    - Alliances are managed using various contracts. Examples:
      - Licensing agreements **-** where one firm allows others to use its brand name to sell products
      - Supply agreements **-** where one firm agrees to supply others
      - Distribution agreements **-** where one firm agrees to distribute the products of others
    - IBM's alliance with the Chinese firm Inspur International is an example of a non-equity alliance.

Strategic Alliances

- Types of strategic alliances:
  - Equity alliance
    - Cooperative contracts are supplemented by equity investments by one partner in the other partner.
    - Strategic investment - one partner invests in another
      - E.g., Pfizer and Merck often own equity positions in several start-up biotechnology companies.
    - Cross-shareholding - both partners invest in each other
      - E.g., Wal-Mart's alliance with JD.com
  - Joint venture
    - Cooperating firms form an independent firm in which they invest. Profits from this independent firm compensate partners for this investment.
    - Typically, partners in a joint venture own equal percentages and contribute equally to the venture's operations
    - E.g., CFM International—a joint venture between General Electric and Safran Aircraft Engines (a French aerospace firm) which is one of the world's leading manufacturers of jet engines for commercial aircraft
    - Is preferred when firms need to combine their resources to create a competitive advantage that is substantially different from any they possess individually and when the partners intend to compete in highly uncertain environments.

Strategic Alliances

- Type of strategic Alliances based on industry of the firms:
  - Horizontal alliance
    - A strategic alliance formed by competitors (operating in the same stage of value chain).
    - Tend to be anti-competitive
    - E.g., GSK and Pfizer created ViiV Healthcare, a JV focusing on HIV and AIDS drugs.
    - Does not suggest that these rivals, Pfizer and GSK, are no longer competing. They still are, in most cases.
      - What is interesting is that they have decided to collaborate in specific areas.
  - Vertical strategic alliances
    - A strategic alliance formed by firms operating in different stages of the industry value chain.
      - Forward strategic alliance
        - A strategic alliance with firms closer to the end customer
      - Backward strategic alliance
        - A strategic alliance with firms closer to the originating inputs of the value chain

Reasons to form an alliance

- To create value they couldn't generate by acting independently
    - Helping firms improve the performance of their current operations
        - Exploiting economies of scale
            - Jointly, firms may have sufficient volume to be able to gain the cost advantages of economies of scale
        - Learning from competitors
            - Different firms in an industry may have different resources and capabilities.
            - Firms that are at a competitive disadvantage may want to form alliances with the firms that have an advantage to learn about their resources and capabilities.
            - When both parties to an alliance are seeking to learn something from that alliance then a learning race may result into a learning race
                - Learning race: A race in which alliance partners aim to outrun each other by learning the "tricks" from the other side as fast as possible.
                - When an alliance is based on the need for one or more parties to learn from the other, when the parties involved have learned all they can from the alliance, then the alliance is no longer required.
        - Managing risk and sharing costs
        - Low-cost entry into new markets

Learning race

- Most firms should expect that their alliance partners will want to learn from them.
  - Especially, firms from developing countries that have quite a lot of catching up to do in terms of technology and organizational routines.
- A firm should try to protect itself from excessive learning on the part of the other firm, while benefiting from the other firm's skills and connections in its markets.
- However, firms have formed alliances for certain specific purposes that are spelled out at the beginning of the alliance.
  - They could have arranged for compensation or payment for those specific purposes, but not for others.
  - Learning that is not connected with those stated purposes will consequently be considered a form of stealing intellectual property, and may be unethical.

Reasons to form an alliance

- To create value they couldn't generate by acting independently
  - Creating a competitive environment favourable to superior performance
    - Facilitating the development of technology standards
      - Firms form strategic alliances with the sole purpose of evaluating and then choosing a technology standard
  - Facilitating low-cost entry into and exit from industries and industry segments
    - Managing uncertainty
      - A real option is an investment in real operations as opposed to financial capital. A real options view features two steps:
        - In the first phase, an investor makes a relatively small, initial investment to buy an option, which leads to the right to future investment without being obligated to do so.
        - The investor holds the option until a decision point arrives in the second phase, and then decides between exercising the option or abandoning it.
      - A joint venture can be seen as an option that a firm buys, under conditions of uncertainty, to retain the ability to move quickly into a market or industry if valuable opportunities present themselves.
    - Low-cost entry into new markets
      - Note that some markets are only accessible using alliances
    - Low-cost exit from industries and industry segments
      - By forming an alliance with a firm that may want to purchase its assets, a firm is giving its partner an opportunity to directly observe how valuable those assets are.

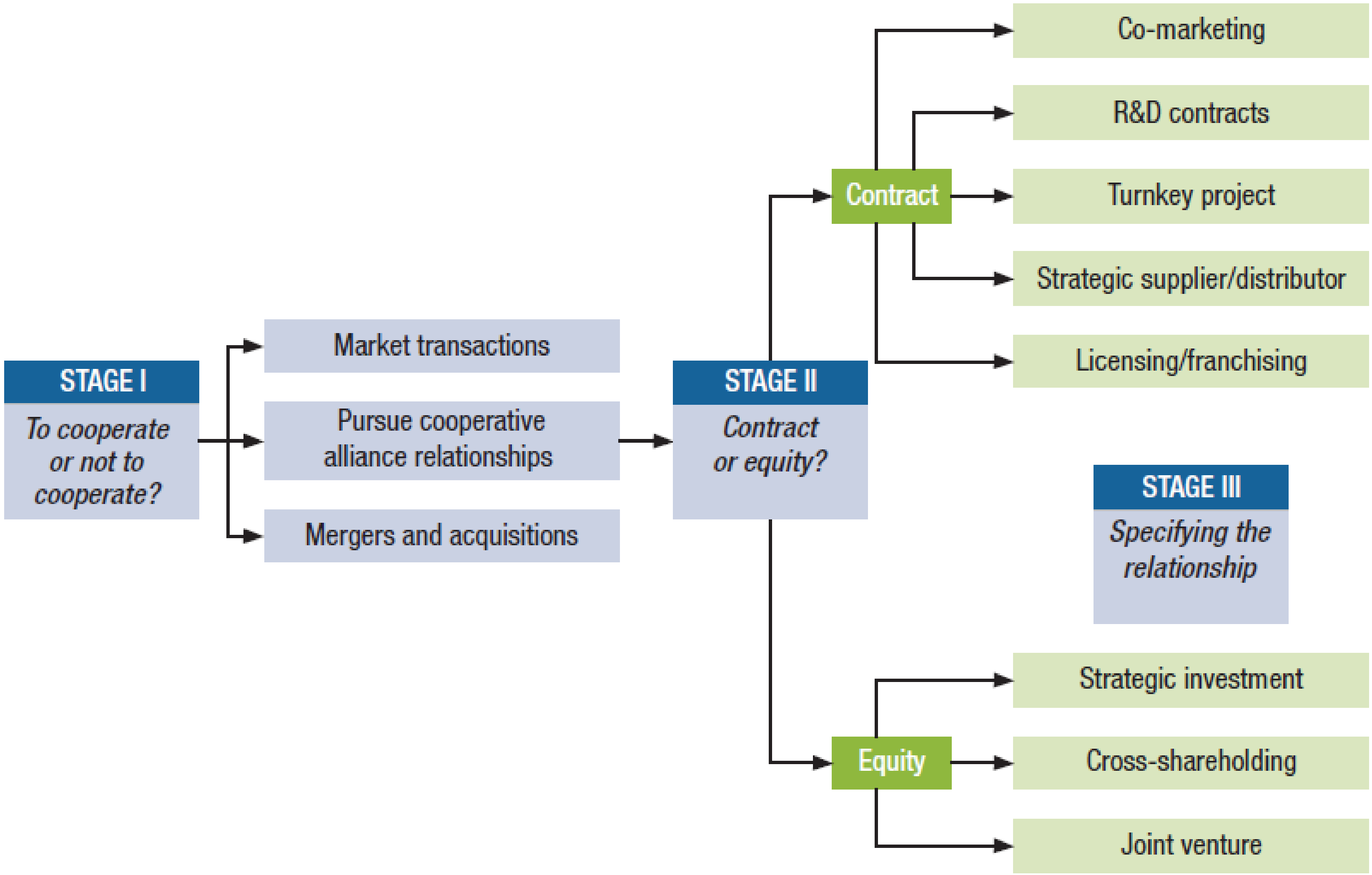
Reasons not to form an alliance

- Research shows that as many as one-third of all strategic alliances do not meet the expectations of at least one alliance partner (Edmunds, 1993)
- Main reason:
  - Not cooperating in a way that maximizes the value of the alliance (i.e. cheating).
    - Adverse selection
      - Potential partners misrepresent the value of the skills and abilities they bring to the alliance.
      - E.g., a local firm engages in adverse selection when it promises to make available to alliance partners a local distribution network that does not currently exist.
      - The less tangible the resources and capabilities that are to be brought to a strategic alliance, the costlier it will be to estimate their value before an alliance is created, and the more likely it is that adverse selection will occur.
    - Moral hazard
      - Partners provide to the alliance skills and abilities of lower quality than they promised.
      - E.g., a firm in an engineering strategic alliance may agree to send only its most talented and best-trained engineers to work in the alliance but then actually send less-talented, poorly trained engineers.
      - Not always because of dishonesty, but often market conditions change after an alliance is formed, requiring one or more partners to an alliance to change their strategies.

Reasons not to form an alliance

- Main reason:
  - Not cooperating in a way that maximizes the value of the alliance (i.e. cheating).
    - Holdup
      - Partners exploit the transaction-specific investments made by others in the alliance.
      - The transaction-specific investment is an investment that its value in its first-best use (in this case, within the alliance) is much greater than its value in its second-best use (in this case, outside the alliance).
      - E.g., partners agree to a 50/50 split of the costs and profits associated with an alliance.
        - To make the alliance work, Firm A must customize its production process.
        - Firm B does not have to modify itself to cooperate with Firm A.
        - The value to Firm A of this customized production process, if it is used in the strategic alliance, is $5000. However, outside the alliance, this customized process is only worth $200 (as scrap) (i.e., Firm A has made a transaction-specific investment in this alliance)
        - Firm A may be subject to holdup by Firm B.
          - Firm B may threaten to leave the alliance unless Firm A agrees to give Firm B part of the $5000 value that Firm A obtains by using the modified production process in the alliance.
        - Rather than lose all the value that could be generated by its investment, Firm A may be willing to give up some of its $5000 to avoid gaining only $200.
        - Thus, even though Firm A and Firm B initially agreed on a 50/50 split from this strategic alliance, the agreement may be modified if one party to the alliance makes significant transaction-specific investments.

Forming an alliance



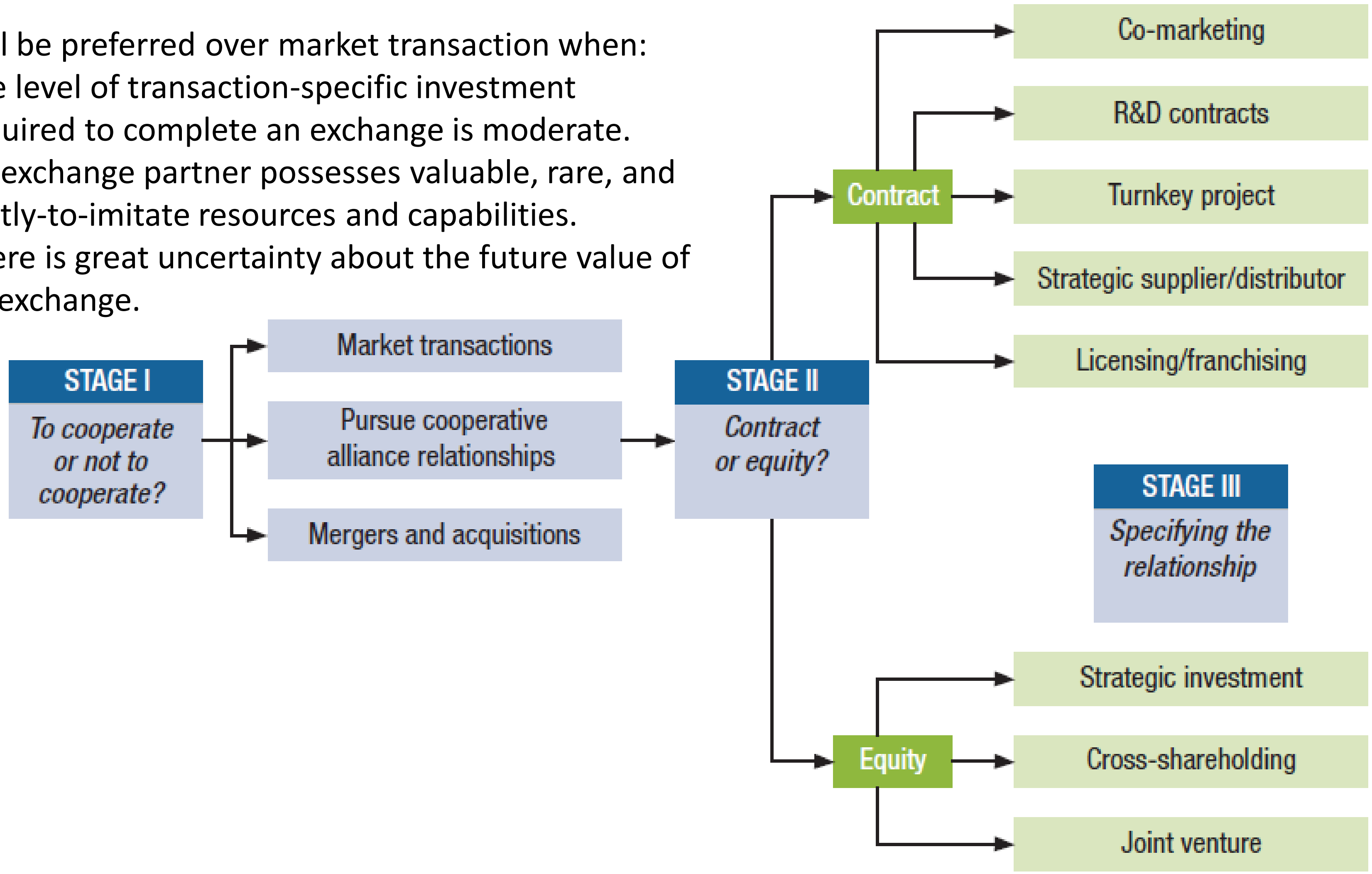
From Peng (2014)

Forming an alliance

Stage 1:

Alliances will be preferred over market transaction when:

- The level of transaction-specific investment required to complete an exchange is moderate.
- An exchange partner possesses valuable, rare, and costly-to-imitate resources and capabilities.
- There is great uncertainty about the future value of an exchange.



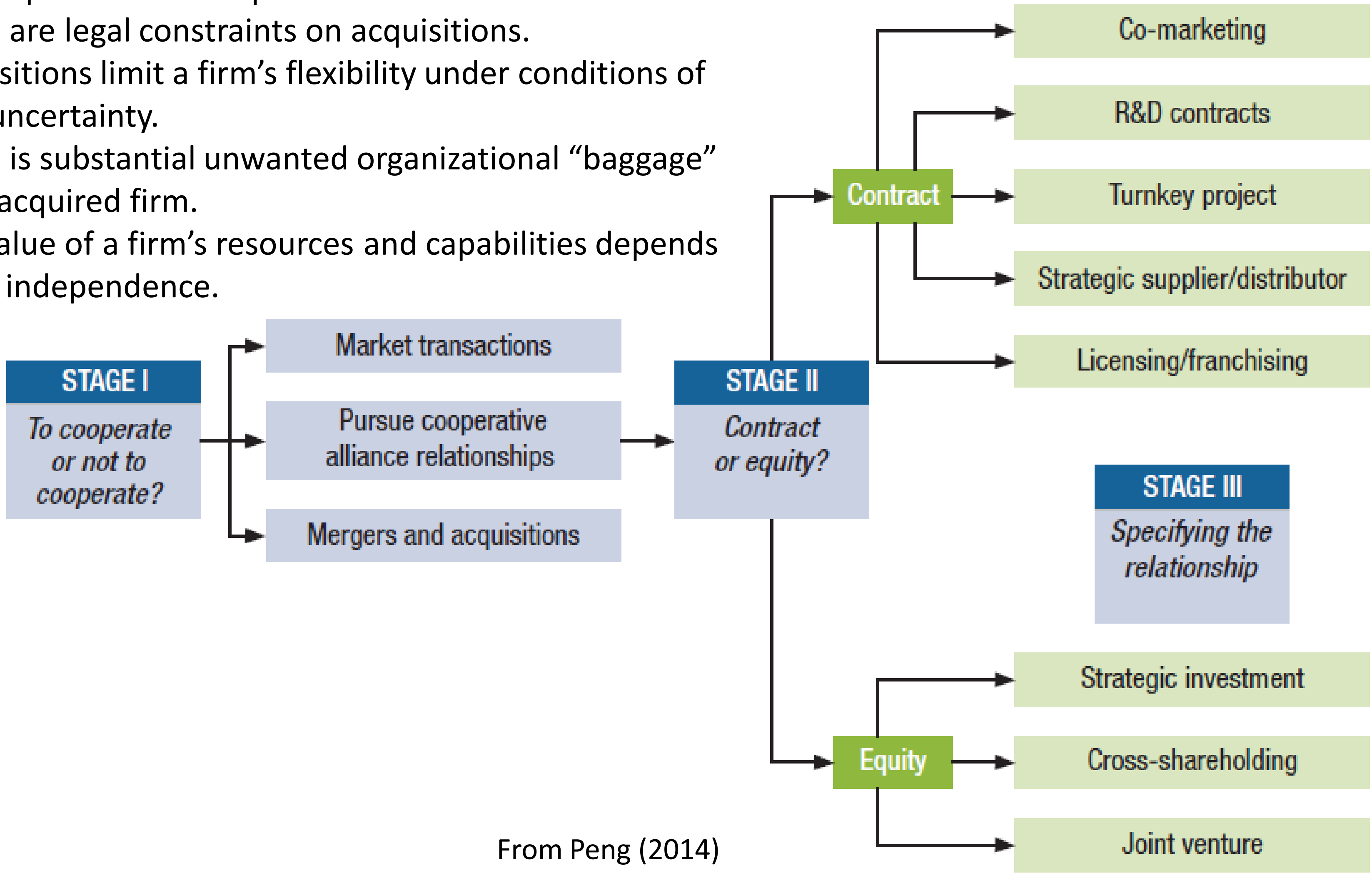
From Peng (2014)

Forming an alliance

Stage 1:

Alliances will be preferred to acquisitions when:

- There are legal constraints on acquisitions.
- Acquisitions limit a firm's flexibility under conditions of high uncertainty.
- There is substantial unwanted organizational "baggage" in an acquired firm.
- The value of a firm's resources and capabilities depends on its independence.



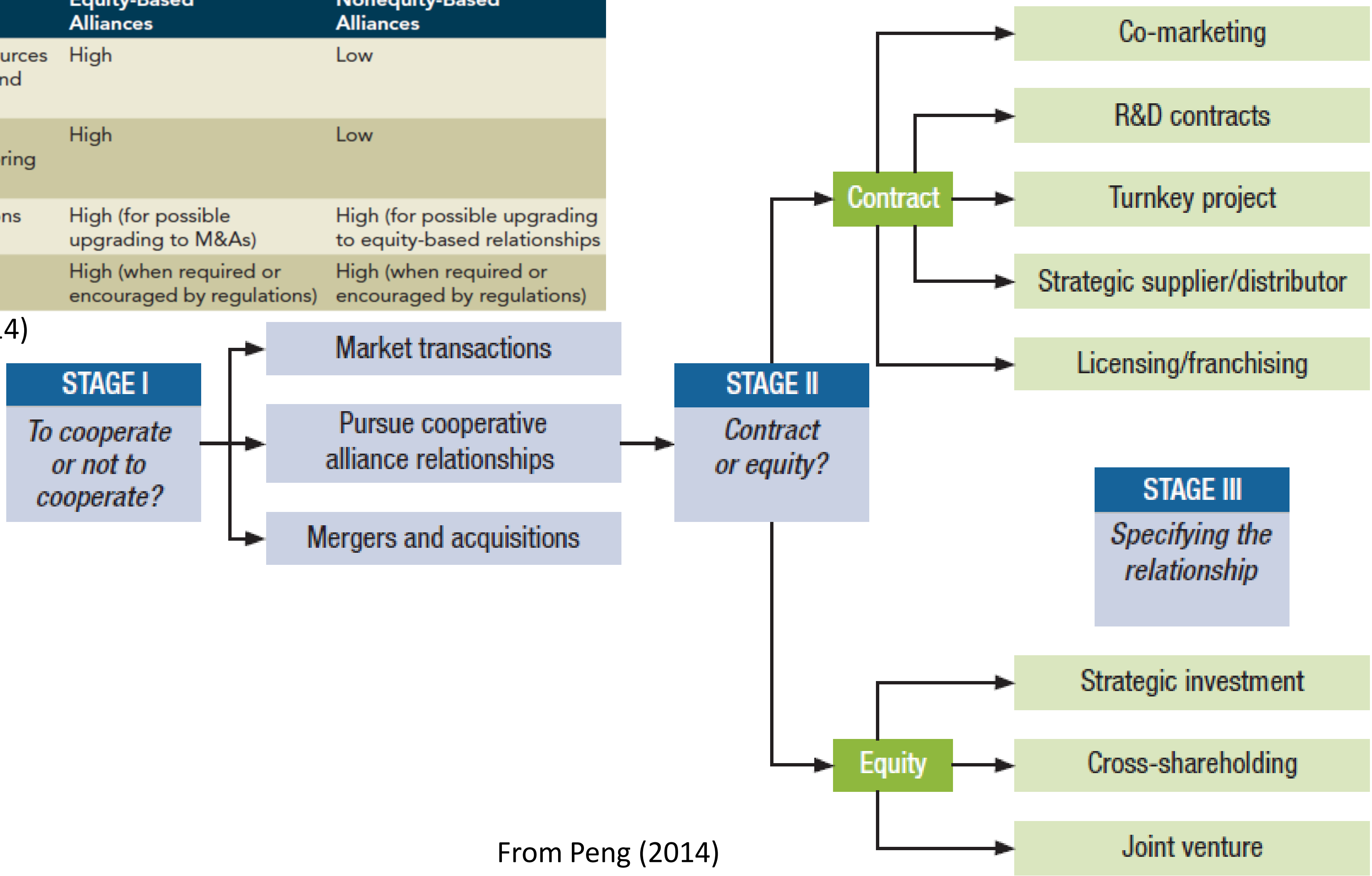
From Peng (2014)

Forming an alliance

Stage 2:

Driving Forces	Equity-Based Alliances	Nonequity-Based Alliances
Nature of shared resources (degree of tacitness and complexity)	High	Low
Importance of direct organizational monitoring and control	High	Low
Potential as real options	High (for possible upgrading to M&As)	High (for possible upgrading to equity-based relationships
Influence of formal institutions	High (when required or encouraged by regulations)	High (when required or encouraged by regulations)

From Peng (2014)



From Peng (2014)

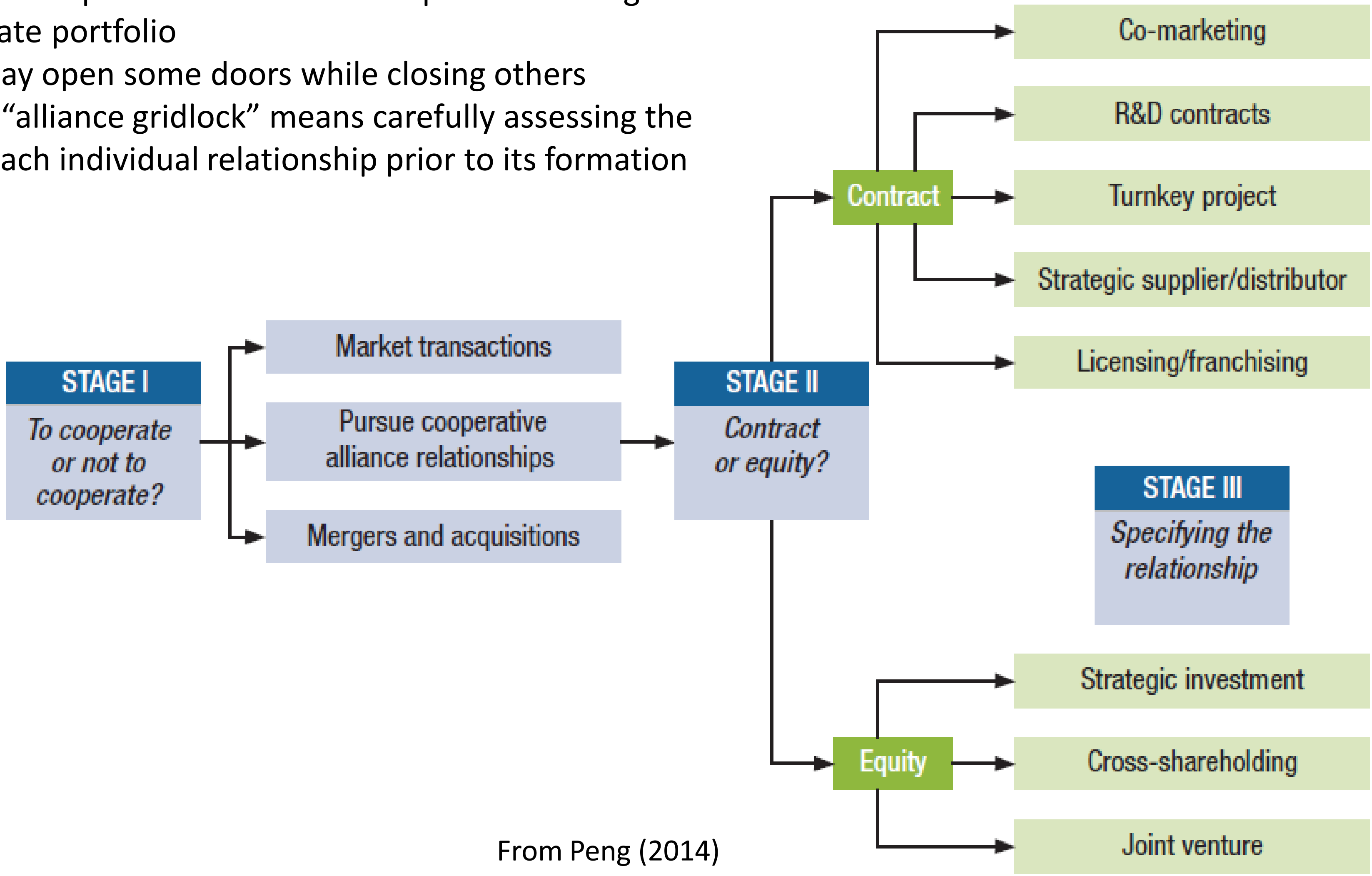
Forming an alliance

- Stage 2: Selection of Partners
  - At least four factors should be considered when selecting a partner for collaboration.
  - **Compatibility** and mutual trust are essential to the success of a strategic alliance.
    - Alliances that lack these elements will probably fail to succeed.
  - **The nature of a potential partner's products or services** may impact the success of a proposed strategic alliance.
    - Most experts recommend that because it is difficult to cooperate with a firm in one market but battle it in a second market, a firm should align itself with a partner whose products and services are complementary to, rather than directly competitive with, its own.
  - **The Relative Safeness of the Alliance**.
    - The process of forming a strategic alliance should include a careful assessment of the potential partner, its previously formed alliances, and its goals and objectives.
  - **The Learning Potential of the Alliance**.
    - The potential to learn from a partner should be assessed prior to forming a strategic alliance.
    - A firm should be careful not to give away information that would put it at a competitive disadvantage if a strategic alliance failed.

Forming an alliance

Stage 3:

- A firm with multiple interfirm relationships must manage them as a corporate portfolio
- Alliances may open some doors while closing others
- Preventing "alliance gridlock" means carefully assessing the impact of each individual relationship prior to its formation



From Peng (2014)

Evolution of alliances

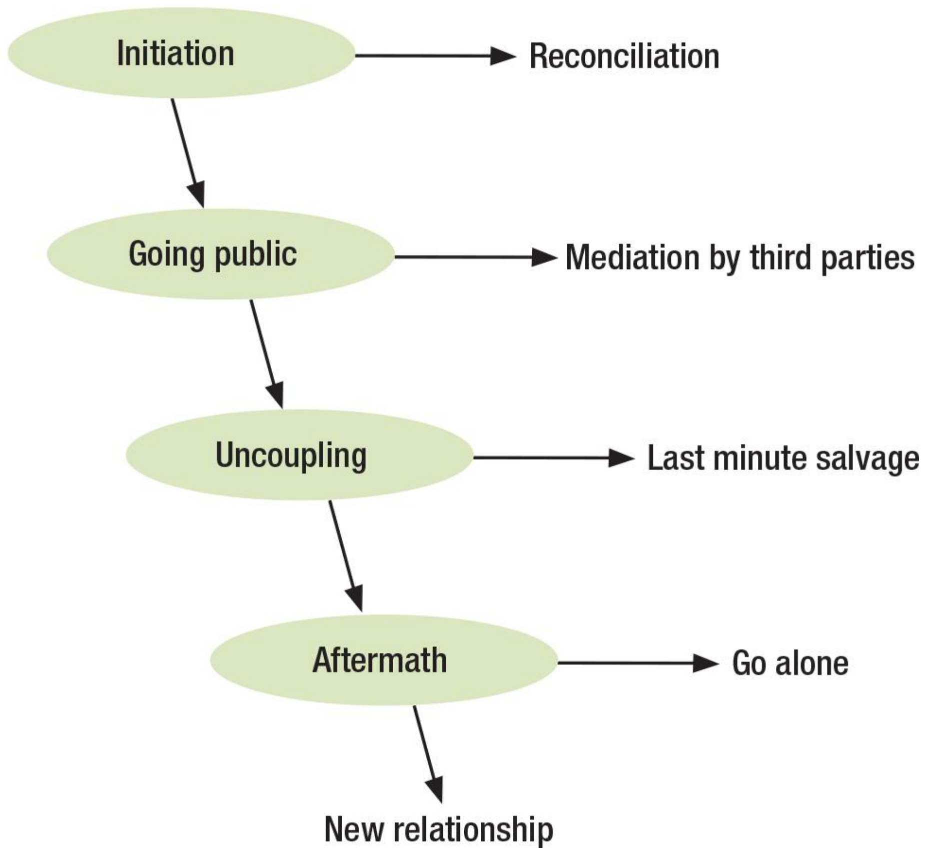
- Combating Opportunism
  - Most firms want both to make their relationship work and to protect themselves from opportunistic allies
  - Possible ways to minimize the threat of opportunism
    - Walling off critical skills and technologies through contractual safeguard
    - Swapping critical skills and technologies through credible commitments
    - In international alliances, setting up a parallel and mutual relationship in the foreign partner's home country may increase the incentives for both partners to cooperate
- Evolving from Strong Ties to Weak Ties
  - Strong ties are more durable, reliable, and trustworthy relationships cultivated over a long period of time
    - Strong ties are associated with exchanging finer-grained, higher quality information
    - Strong ties serve as an informal, social control mechanism and an alternative to formal contracts for combating opportunism

Evolution of alliances

- Evolving from Strong Ties to Weak Ties
    - Weak ties are defined as relationships that are characterized by infrequent interaction and low intimacy
        - Weak ties are less costly to maintain
        - Weak ties excel at connecting with distant others who possess unique and novel information for strategic actions
    - Firms are likely to have a combination of strong ties and weak ties in their interfirm relationships
    - Benefits of the different types of ties depend on the firms' strategies—exploitation or exploration
        - Exploitation can occur within refinement, choice, production, efficiency, selection, and execution
        - Exploration captures aspects of search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation
        - Strong ties are more beneficial to environments conductive for exploitation whereas weak ties more suitable for exploration
    - Many interfirm relationships evolve from an emphasis on strong ties to a focus on weak ties
        - Strategic direction shifts from exploitation to exploration
        - International Joint Venture shifts to weak ties in order to prevent opportunism

Evolution of alliances

- From Corporate Marriage to Divorce
  - Alliances are often described as corporate marriages, and when terminated, as corporate divorces
  - A two-partner alliance can be used to understand the metaphor of divorce between an initiator and its partner
  - Alliance dissolution
    - The first phase is initiation, where the initiator starts feeling uncomfortable with the alliance
    - The second phase is going public, and the party that breaks the news first has a first-mover advantage
    - The third phase is uncoupling—this can be friendly or hostile
    - The last phase is aftermath—the quest for new partners



From Peng (2014)

Performance of Alliances

- A combination of objective and subjective measures can be used to determine performance
  - Objective measures include:
    - financial performance (e.g., profitability)
    - product market performance (e.g., market share)
    - stability
    - longevity
  - Subjective measures include the level of managers' perceived satisfaction and other factors
  - Note that objective and subjective measures might sometimes diverge
- Factors may influence the performance of alliances
  - Equity
    - A greater level of equity contribution may indicate a firm's commitment and attention
  - Learning and experience
    - Experience is often used as a proxy measure
    - Not linear and has a limit beyond which performance cannot be increased

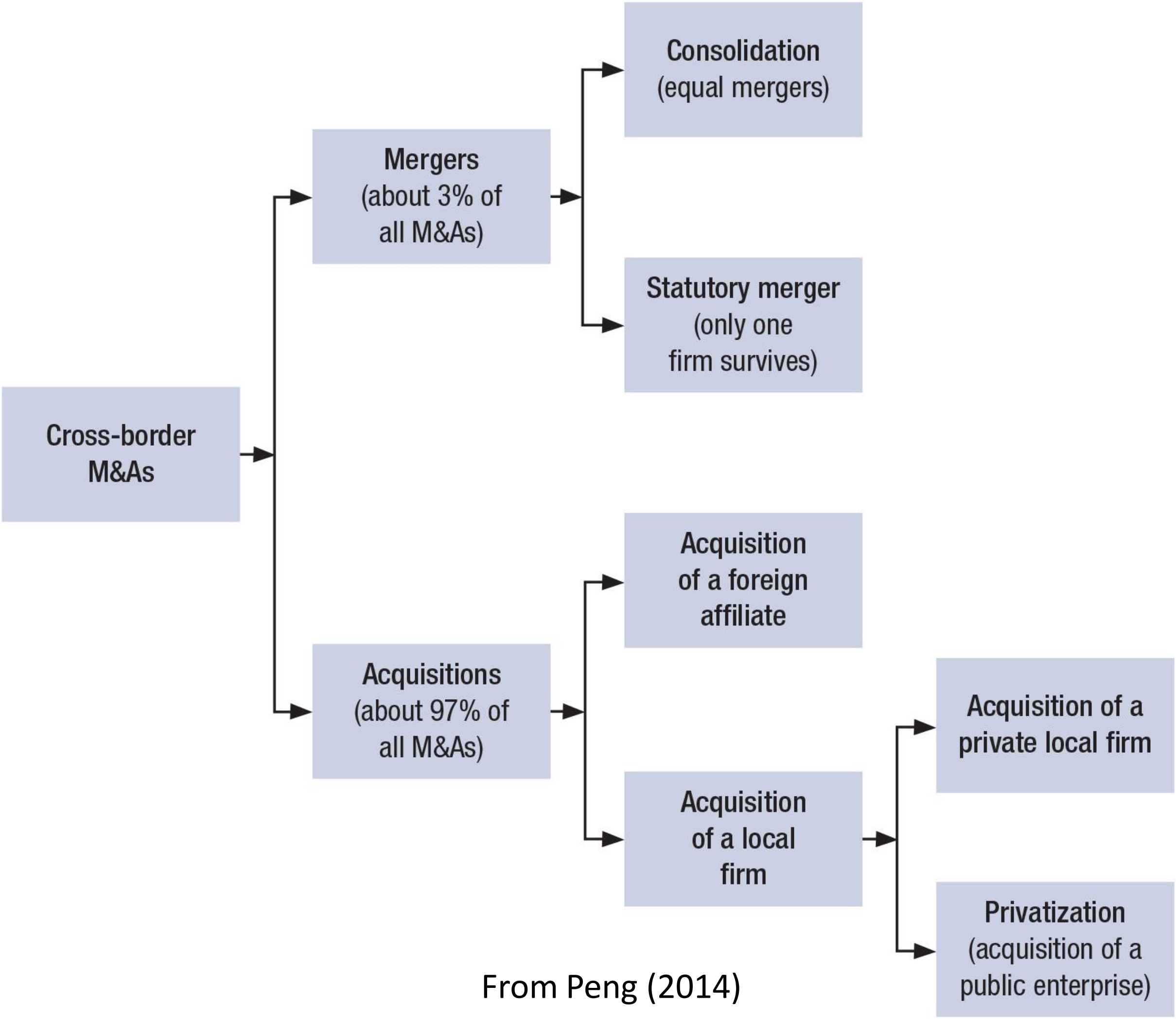
Performance of Alliances

- Factors may influence the performance of alliances
  - Nationality
    - International alliances and networks tend to have more problems than domestic relationships
    - Firms usually prefer to first ally with culturally close partners
  - Relational capabilities
    - Soft, hard-to-measure relational capabilities
    - May make or break the interfirm relationship
- The Performance of Parent Firms
  - A higher level of collaboration and shared technology is associated with better profitability and more product market share for parent firms
  - Stock market responds favorably to alliance activities, but only under certain circumstances
    - Complementary resources
    - Previous alliance experience
    - Ability to manage the host country’s political risk

Mergers and Acquisitions (M&As)

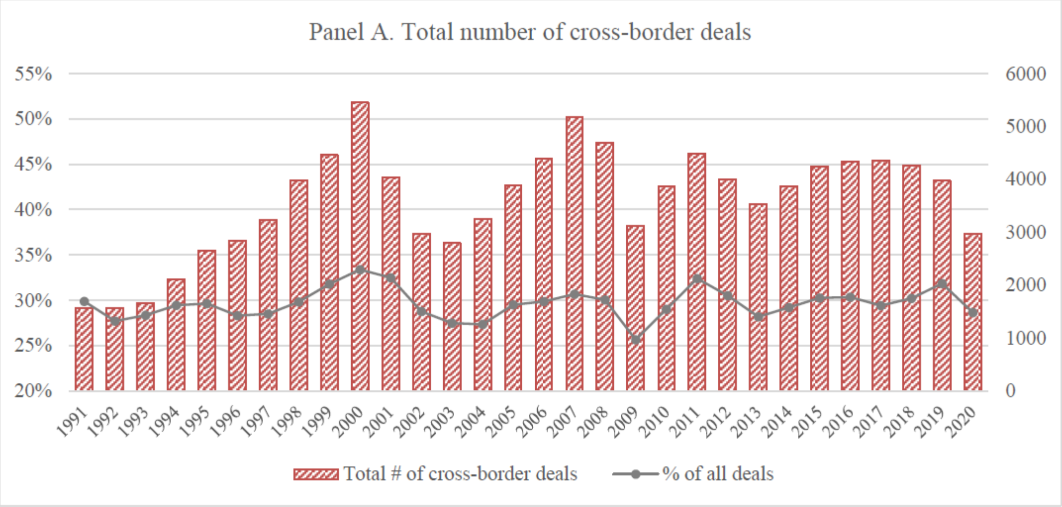
- Acquisition
  - The transfer of the control of assets, operations, and management from one firm (target) to another (acquirer)
    - The former becomes a unit of the latter
- Merger
  - The combination of assets , operations, and management of two firms to establish a new legal entity
- Cross-border (international) M&As constitute about 30 percent of the total number and 37 percent of the total volume of acquisitions around the world in recent years
- Three primary categories of M&A
    - Horizontal: Deals involving competing firms in the same industry
    - Vertical: Deals that allow the focal firms to acquire (upstream) suppliers or (downstream) buyers
    - Conglomerate: Transactions involving firms in product-unrelated industries
- Friendly M&A
  - The board and management of a target firm agree to the transaction
- Hostile M&A
  - Takeovers that are undertaken against the wishes of the target firm's board and management

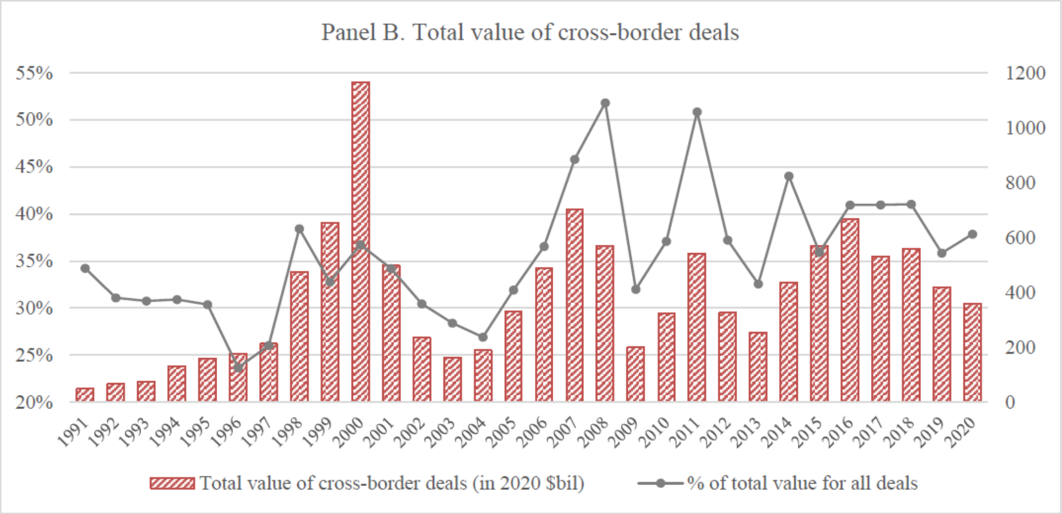
The Variety of Cross-Border M&As

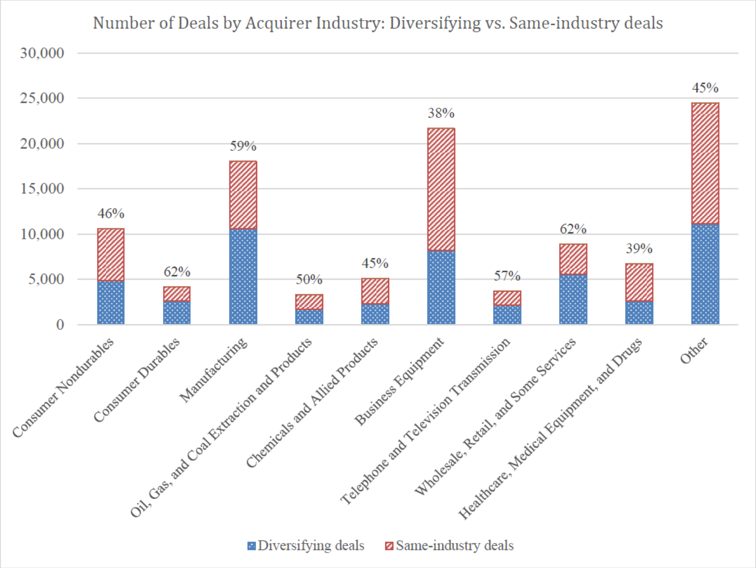


From Peng (2014)

Cross-border M&As







From Weisbach, Jang, and Erel (2022)

Motives for M&As

- Increased Market Power
  - Most acquisitions that are designed to achieve greater market power entail buying a competitor, a supplier, a distributor, or a business in a highly related industry so that a core competence can be used to gain competitive advantage in the acquiring firm's primary market.
- Overcoming Entry Barriers
  - A new entrant may find that acquiring an established company is more effective than entering the market as a competitor offering a product that is unfamiliar to current buyers.
    - The higher the barriers to market entry, the greater the probability that a firm will acquire an existing firm to overcome them.
- Cost of New Product Development and Increased Speed to Market
  - With an acquisition a firm can take to gain access to new products and to current products that are new to it.
    - Compared with internal product development processes, acquisitions provide more predictable returns as well as faster market entry.
    - Returns are more predictable because the performance of the acquired firm's products can be assessed prior to completing the acquisition

Motives for M&As

- Lower Risk Compared to Developing New Products
  - The outcomes of an acquisition can be estimated more easily and accurately than the outcomes of an internal product development process; as such, managers may view acquisitions as less risky.
    - However, even though research suggests acquisition strategies are a common means of avoiding risky internal ventures (and therefore risky R&D investments), acquisitions may also become a substitute for internal innovation.
- Increased Diversification
  - Acquisition strategies can be used to support the use of both related and unrelated diversification strategies
- Reshaping the Firm's Competitive Scope
  - To reduce the negative effect of an intense rivalry on financial performance, firms may use acquisitions to lessen their product and/or market dependencies
- Learning and Developing New Capabilities
  - Research shows that firms can broaden their knowledge base and reduce inactivity through acquisitions
  - They increase the potential of their capabilities when they acquire diverse talent through cross-border acquisitions

Motives for M&As

- Not all motives add value, hubristic and managerial motives reduce value.
- Hubris refers to managers' overconfidence in their capabilities.
  - "We can manage your assets better than you [target firm managers] can!"
- Acquirers of publicly listed firms always have to pay an acquisition premium
  - Acquisition premium is the difference between the acquisition price and the market value of target firms.
  - Acquirers of US firms on average pay a 20%–30% premium, and acquirers of EU firms pay a slightly lower premium (18%).
  - When bidding for targets in developed economies, acquirers from emerging economies on average pay a premium that is 16% higher than premium from acquirers from developed economies.
  - When bidding for targets in Europe, the average Chinese acquirers' premium is double the size of the average European acquirers' premium

Additional motives for cross-border M&As

- Exploit arbitrage opportunities
  - Labour cost
    - If a firm acquires a target in a country with lower labour regulations, it can potentially move some of its operations to the target firm and lower its labour costs
  - Labour regulations
    - A country's lax labour regulations make firms in that country more attractive to potential acquirers (Alimov, 2015)
  - Tax regulations (Tax havens)
    - Meier and Smith (2021) estimates suggest that the value of cross-border acquisitions of tax-haven companies is $2.4 trillion more than it would have been absent tax considerations.
- Legal Protections of Shareholders' Rights
  - Legal protection can have a substantial impact on a firm's corporate financial decisions.
  - Differences across countries in the way in which legal systems protect shareholders' rights influence not only firms' abilities to raise capital but also firms' financial policies and valuations.
    - Better protection increases firm value, then being acquired by a firm from a country that has better shareholder protection could lead to an improvement in the value of the target firm.
    - Acquisition premiums are higher when corporate governance differences are higher (Bris & Cabolis, 2008)

Additional motives for cross-border M&As

- Intellectual Property
  - The protection of the intellectual property is particularly important in industries where technology is important
  - Better intellectual property protection in a country does leads to more cross-border technology mergers (Hasan, Khalil, & Sun, 2017)
  - Acquisition premiums are higher when the target comes from countries with better intellectual property protection
    - Protection makes companies more valuable to potential acquirers
- Trade and Politics
  - Tariffs, can actually be a reason for making a cross-border acquisition.
    - When tariffs are sufficiently high, firms will make cross-border acquisitions or greenfield investments to avoid paying them.
  - Quality of relations between two countries
    - State visits between countries predict a higher number of cross-border acquisitions between firms from those countries (Aleksanyan, Hao, Vagenas-Nanos, & Verwijmeren, 2021)

Problems in achieving acquisition success

- Research suggests that perhaps 20 percent of mergers and acquisitions are successful, approximately 60 percent produce disappointing results, and the remaining 20 percent are clear failures.
- Integration difficulties
  - Integration process is the strongest determinant of whether either a merger or an acquisition will be successful.
  - Post-acquisition integration is often a complex set of organizational processes that is difficult and challenging
  - Among the challenges associated with integration processes are the need to:
    - Meld two or more unique corporate cultures
    - Link different financial and information control systems
    - Build effective working relationships (particularly when management styles differ)
    - Determine the leadership structure and those who will fill it for the integrated firm

Problems in achieving acquisition success

- Inadequate evaluation of target
  - Due diligence is a process through which a potential acquirer evaluates a target firm for acquisition.
    - Includes a wide range of areas to be examined such as the financing for the intended transaction, differences in cultures between the acquiring and target firm, tax consequences of the transaction, and actions that would be necessary to successfully combine the two workforces.
    - It is usually performed by investment bankers such as Deutsche Bank, Goldman Sachs, etc.
    - It often focuses on evaluating the accuracy of the financial position and accounting standards used (a financial audit), due diligence also needs to examine the quality of the **strategic fit** and the ability of the acquiring firm to effectively integrate the target to realize the potential gains from the deal
      - Strategic fit: The complementarity of partner firms' "hard" skills and resources, such as technology, capital, and distribution channels.
    - The managerial challenge is to effectively examine each acquisition target in order to determine the amount of premium that is appropriate for the acquiring firm to pay.

Problems in achieving acquisition success

- Inability to Achieve Synergy
  - Synergy exists when assets are worth more when used in conjunction with each other than when they are used separately.
    - Created by the efficiencies derived from economies of scale and economies of scope and by sharing resources (e.g., human capital and knowledge) across the businesses in the newly created firm's portfolio.
  - For shareholders, synergy generates gains in their wealth that they could not duplicate or exceed through their own portfolio diversification decisions
  - A firm gains a competitive advantage through an acquisition strategy only when a transaction generates ***private*** synergy.
    - Private synergy is created when combining and integrating the acquiring and acquired firms' assets yield capabilities and core competencies that could not be developed by combining and integrating either firm's assets with another company.
    - Private synergy is possible when firms' assets are complementary in unique ways
  - Although difficult to create, the attractiveness of private synergy is that because of its uniqueness, it is difficult for competitors to understand and imitate, meaning that a competitive advantage results for the firms able to create it.

Problems in achieving acquisition success

- Inability to Achieve Synergy
  - Firms experience several expenses when seeking to create synergy through acquisitions (i.e. transaction costs)
  - Transaction costs may be direct or indirect.
    - Direct costs e.g., legal fees and charges from investment bankers who complete due diligence for the acquiring firm.
    - Indirect costs e.g., managerial time to evaluate target firms, time to complete negotiations, the loss of key managers and employees following an acquisition
  - Often firms tend to underestimate the sum of indirect costs when specifying the value of the synergy that may be created by integrating the acquired firm's assets with the acquiring firm's assets.
- Too much diversification
  - Overdiversification on average reduce the performance
  - Overdiversification becomes substitutes for innovation

Problems in achieving acquisition success

- Managers Overly Focused on Acquisitions
  - Activities with which managers become involved include:
    - Searching for viable acquisition candidates
    - Completing effective due-diligence processes
    - Preparing for negotiations
    - Managing the integration process after completing the acquisition
  - Top-level managers do not personally gather all of the information and data required to make acquisitions
  - Overinvolvement can divert managerial attention from other matters that are necessary for long-term competitive success, such as identifying and taking advantage of other opportunities and interacting with important external stakeholders.
  - Finding the appropriate degree of involvement with the firm's acquisition strategy is a challenging, yet important, task for top-level managers.

Problems in achieving acquisition success

- Cultural Reasons
  - Cultural differences can be a hurdle that must be overcome when combining two firms from different countries
  - The volume of cross-border mergers is lower when countries are more culturally distant. (Ahern, Daminelli, & Fracassi, 2015)
  - Greater cultural distance in trust and individualism leads to lower synergy gains (Ahern, Daminelli, & Fracassi, 2015)
- Politics
  - Nationalistic concerns against foreign takeovers (political and media levels)
    - “Economic Nationalism.”
      - Especially prevalent when the firms targeted by foreign acquirers are important to the country’s economy or are thought to be symbolic of a country’s wealth or power
      - governments are more likely to support deals when the acquirer is from their own country and are significantly more likely to oppose foreign bids.
  - Uncertainty about government policies and how foreign companies will be treated.
  - Stronger climate regulations in a country decrease the incidence of cross-border acquisitions of that country’s firms (Li, Tang, & Xie, 2022)

Problems in achieving acquisition success

Investors	Will synergy benefits be downscaled?	Optimistic view of return on investment?	Will efficiency & short-term revenues fall?
Top management	Synergies difficult to attain	Internal conflicts: fractious management groups, key staff leave	Unrealistic euphoria
Middle management	Concern over job security	Expected to do M&A + day jobs at the same time	Overwhelmed by scale and scope
Front-line employees	What should I tell my customers?	When do lay-offs begin?	Who is setting my priorities and objectives?
Customers	So what?	Service quality dips, relationship suffers	No one is listening to me. Do I still matter?

From Peng (2014)

M&A characteristics that affect performance

- Mode of payment
  - Studies have illustrated that cash-financed M&As yield positive abnormal returns, whereas stock-financed M&As generate negative abnormal returns (Martynova & Renneboog, 2008)
- Relative deal size
  - Deal size divided by the acquirers' total assets
  - Studies have shown that relative deal size is negatively associated with abnormal returns because of the increase risk since the firm is acquiring another firm with a deal size that does not fit the acquirers' assets.
- Status of target
  - Key differences between private and public firms are the quantity and quality of information available to the public, as well as the ownership structure.
  - Acquirers would pay more (and thus earn lower returns) if the target is listed since the transaction price needs to satisfy the interests of a diverse group of shareholders (Choi & Russell, 2004)

Effective acquisitions

Attributes	Results
Acquired firm has assets or resources that are complementary to the acquiring firm's core business	High probability of synergy and competitive advantage by maintaining strengths
Faster and more effective integration and possibly lower premiums	Acquisition is friendly
Acquiring firm conducts effective due diligence to select target firms and evaluate the target firm's health (financial, cultural, and human resources)	Firms with strongest complementarities are acquired and overpayment is avoided
Financing (debt or equity) is easier and less costly to obtain	Acquiring firm has financial slack (cash or a favourable debt position)
Merged firm maintains low to moderate debt position	Lower financing cost, lower risk (e.g., of bankruptcy), and avoidance of trade-offs that are associated with high debt
Acquiring firm maintains long-term competitive advantage in markets	Acquiring firm has a sustained and consistent emphasis on R&D and innovation
Acquiring firm manages change well and is flexible and adaptable	Faster and more effective integration facilitates achievement of synergy

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Thank You!