

## Mergers, Acquisitions and Corporate Development

BUSMHR 7420  
COURSE OUTLINE

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**Full time Program:** Tuesday & Thursday, 2:45-4:15pm, and  
**Working Professional Program:** Thursday, 6:15-9:30pm

“Many managers were apparently overexposed in impressionable childhood years to the story in which the imprisoned, handsome prince is released from the toad’s body by a kiss from the beautiful princess. They are certain that the managerial kiss will do wonders for the profitability of the target company...why else should the shareholders of company A want to buy an interest in company B at a takeover cost that is two times the market price they’d pay if they made direct purchases on their own?...we’ve observed many kisses, but very few miracles.”

*“E’ cosa veramente molto naturale e ordinaria desiderare di acquistare; e sempre quando gli uomini lo fanno che possono, saranno laudati, o non biasimati; ma quando non possono, e vogliono farlo in ogni modo, qui e’ lo errore e il biasimo”*

(The desire to acquire is a very common and natural thing; and when a man who is capable of doing it makes the attempt, he will generally be praised, or at least not blamed; error and blame arise when a man lacks the necessary ability and still wants to make the attempt at all costs.)

Warren Buffet  
Annual Report, 1981

Niccolo’ Macchiavelli, De Principatibus

Ch. III - De Principati Misti

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## OBJECTIVES

Mergers and acquisitions (M&A) can provide significant opportunities for value creation, value destruction and value appropriation, as the newspapers remind us every day. While some firms have been able to consolidate their position among competitors and achieve growth and profitability using M&A, others have achieved disastrous results. While M&A transactions frequently end in failure, research and experience has revealed that success and failure are not random events, but rather based on specific strategic choices made by the decision makers of firms. This course presents the opportunity to analyze the mechanisms underlying the creation and destruction of value in mergers and acquisitions from a strategic perspective. The following issues will be examined in this course:

- Internal and external forces that drive firms to merge or acquire
- Various value creation strategies involving M&A
- Appropriation of value through proper valuation, negotiation and internal decision making
- Post-acquisition integration in order to ensure that the value creation potential is realized

This is a strategy course though it is inter-disciplinary in nature, so we will borrow concepts from finance, international business, organizational behavior, marketing and other disciplines. Since the emphasis here is on strategic and operational aspects of these transactions rather than financial considerations, it is complementary to, and builds on courses in corporate finance and valuation.

We will begin with an analysis of major strategies that underlie most M&A transactions. This will include the necessary conditions for value to be created, for example through operating synergies, cost efficiencies and revenue enhancements, knowledge and skill transfers. We will also study the incidence of non-synergistic transactions. This will be

followed by an examination of the drivers of M&A and choice of target firms, with recognition of the anticipated challenges, risks and pitfalls of specific choices. We will also discuss the complexities of the integration and implementation processes, which determine how much of the value creation potential will actually be realized. Throughout the course, performance implications are evaluated with the use of both successful and unsuccessful illustrations as well as conclusions from broad empirical research. There is an opportunity for all the students to customize the course to their learning outcomes through project work.

### **PREPARATION FOR THE COURSE**

The requirements for this course will combine reading, analysis, and assignments with opportunities to apply basic concepts and analytic approaches to a series of actual businesses and other organizations. The course will combine a mix of cases, lecture/discussion, exercises/role plays, and videos, and group project. Your basic objective is to develop your own understanding and management skills. My primary objective is to stimulate this process. Specifically, the course will attempt to help you develop your knowledge and skills in the application of advanced frameworks, concepts, and methods for making strategic and organizational choices at the business level.

A large proportion of our time will be spent discussing business cases. The case-study method brings a “real world” approach to business education in at least two important ways. First, case discussions generate a dynamic process of vigorous questioning and responding, examination and debate among students and discussion leader. Because strategy issues are often characterized by ambiguity, complexity or uncertainty, this course enables each class participant to add to one another’s points of view, and form a larger picture of the matter, as in a multi piece puzzle. Each participant also has a chance to question others’ knowledge pieces, while defending her / his own, in ways that help stretch each knowledge piece up to their boundaries, and test their validities before they

are accepted into the main picture. The best analogy for one to appreciate the advantages of this learning method for a concealed-matter subject such as strategy is the famous Indian tale of the six blind men and the elephant. The challenge here, however, is that all students must prepare in advance of class, and then deliver their own share of knowledge in group.

Second, the Fisher degree and is about more than just acquiring a toolbox of analytical skills. In this regard, the case method trains students to think as administrators (rather than as scholars), so that they: (1) see a problem looking for solutions rather than a concept looking for applications, (2) focus on defining and prioritizing a maze of tangled problems and determining which one(s) to attack with the limited time available, (3) appreciate differing agendas and points of view, and (4) take action, not just report findings. The case method helps students to refine their skills as insightful questioners, rather than just good answer-finders. In this model of learning, it is the journey more than the destination that matters. You will eventually find that the practice of strategic thinking is sometimes more about asking the right questions than it is about knowing the right answers. Just as in management, there is no formula that you can follow for every case. Nevertheless, over the course of the semester, students gradually build on the combination of theory and analysis, judgment and experience to develop for themselves the ideas that the teacher seeks to communicate. As Walter Wriston once said, "Good judgment comes from experience. Experience comes from bad judgment." As in the "real world," the case method replicates the trial-and-error experience of seasoned managers, thereby deepening judgment. It also does so in the low risk environment of the classroom where career casualties are not at stake.

Third, by linking analysis with individual action taking, the case method encourages moral awareness by requiring students to take a stand. The give-and-take of case discussion often brings to the surface subtle ethical dilemmas that might otherwise be missed. The case method helps students learn to assess and embrace the tradeoffs among different

stakeholders' interests. The case method requires students to use all of their knowledge, skills and experience to respond in real time to the questions raised in class and to effectively communicate their ideas to their classmates and help to lead them to a greater shared understanding of the problem at hand. Thus, the students become the 'owners', the 'doers', and the 'teachers' of strategy. These new roles you are expected to undertake are not without a good cause. Research has shown that low engagement learning methods (e.g. listening to lectures, reading) have a low retention rate, often in the range of 5% to 15%. Mid-level engagement methods (e.g. audio visual, demonstration, and discussion) have a higher retention rate, often in the range of 25% to 55%. High engagement methods on the other hand (e.g. practice by doing, teaching others) have the highest retention rate of all, in the order of 80 to 95%. Therefore, it is clear that this learning method will help you not only understand the matter of strategy, but develop skills associated with its practice, in a way that help you retain the knowledge so as to later be able to deliver in practice.

While our applications will emphasize exercise of judgment, by no means is this course "theory free." We will learn to break down complex problems into manageable analytical issues to which we can apply a rigorous set of theoretical tools. Case discussions are intended to present dilemmas as they are encountered by managers, so it is important to deal with the cases as you find them (i.e., no "Monday morning quarterbacking" based on knowledge of what happened after the time frame of the case). In case discussions, the present tense should be interpreted as referring to the time frame of the case or its end. Please do not prepare for the class discussion by seeking out additional or more recent data on the firms or industries in the case.

A review of the key lessons from the case and how they relate to more general principles, will wrap-up the class. In some of the classes there will be group assignments and exercises. Each of the classes represents an opportunity to learn, which can only be properly utilized with adequate preparation before class. It is important that all classes be

attended, and that each student contributes to the learning and discussion in class. It is also expected that each present student is fully prepared to be “cold-called”.

## EVALUATION

Evaluation of student performance will be based on the following:

1. Group Project 30%
2. Class Participation 30%
3. Individual Assignment 10%
4. Group Assignments 30%

**Group Project:** The classroom part of the course aims to cover topics most likely to be of interest to the majority of students. However, the project is an opportunity for the students to customize the course to their specific interests such as specific industries, firms or management issues. Consequently, it is hoped that students will be able to identify a topic of their interest and team up with other students with similar interests. The project will be done in groups of four to six students. Please follow the following approach in this project:

1. Please start with the following matrix and try to fill the boxes with relevant information from a firm or industry of your choice.

	Same Business	Vertical Integr.	Diversification	Global Growth
Internal Growth				
Strategic Alliances				
Mergers & Acquisition				

In this course, we will develop and utilize this framework for determining the **direction of growth**: market penetration in the same business, vertical integration, related and unrelated diversification, and globalization; and the **mode of growth**: internal growth, alliances, and mergers and acquisitions. For a firm (or industry), start by identifying the growth initiatives undertaken corresponding to the cells in this matrix.

2. Once you have understood this “big picture” of a company’s growth strategy, you may analyze the overall strategy or focus on some specific aspect (e.g., a specific acquisition, or diversification or globalization in general) of its growth strategy. Or, you can also choose a few companies in an industry and compare their growth strategies or focus on some aspect of their growth strategies. You can decide how broad or narrow the focus of the term project should be. You can choose an example of a successful or an unsuccessful strategy. I have very few constraints on the specific topic of the term project; the critical point is that there should be some interesting lesson to be learnt. I certainly expect the term project to address some of the issues raised, and apply some of the concepts developed in the course; I expect it to be a useful learning experience for you.

While collecting information is a significant part of this project, I expect you to do more than report facts and other people's opinions. I want to see your interpretation and analysis of the facts, and your insights and recommendations. This project is primarily an opportunity for you to apply your conceptual skills in analyzing a firm’s strategy for growth.

The choice of topics/methodology/format for the project is up to the project teams, though a typical project is an analysis of an M&A case followed by lessons learnt. In your research you may rely on secondary reports (e.g., financial or accounting results); conduct your own research by contacting managers, analysts,

employees or customers, conduct surveys, or any combination of innovative analyses. I encourage all the groups to meet and discuss their proposals with me.

The groups will submit their final reports in electronic format by **March 1, 2017**.

The projects should be about 10-12 PowerPoint slides or equivalent Word document. You may have additional exhibits/tables if necessary and relevant to your conclusions. For example, you may choose to adopt the following format:

1. Executive Summary: 1 slide
2. Quick description of the topic: 2 slides
3. Analysis of value creation/destruction: 5-6 slides
4. Lessons learnt: 2 slides

Please note that in this suggested format, the emphasis is on *your* analysis and conclusions, not on information gathered. Detailed information by itself is not valuable in this project, but the same information seen through the lens of relevant frameworks can be converted into insights and lessons, which are extremely valuable.

Some general pointers to keep in mind:

1. Provide some empirical data on the firm strategies and results they have achieved, not just opinions. For example, how do we know that a firm's approach was successful or unsuccessful?
2. Feel free to have a liberal number of exhibits with figures, diagrams, appendices ...etc. to support the case, but make sure they include *relevant* information.
3. Video segments of interviews and profiles of the company can be very useful in your presentations/paper. If you are interviewing managers for this report, it is



- important for you to provide actual quotes from your interviews to bolster the case. Think of other innovative communication methods.
4. Please make sure you understand first the business or industry shifts that may be driving the strategies.

Generally, the *most successful* projects involve:

- (a) *A clear focus*: In-depth focus on a few key issues is better than a broad focus on lots of issues. Keep the background to an appropriate length and spend the bulk of the case on the issue you are focusing on.
- (b) *Clear lessons*: Convincing implications for firms and best practices are very important, and
- (c) *Critical analysis*: Take a critical perspective of the conventional wisdom. You may trust the information provided in business magazines or newspapers, but not necessarily their opinion: instead think and analyze so as to identify potential inconsistencies.

Generally, the *least successful* projects involve a summary of information from business press/annual reports without adequate articulation of any new insights.

I would like to assist you in any way possible to make these assignments as good as possible so please don't hesitate to iterate with me on your projects as often as you like. I view the project as an important learning component of the course in which you can examine, first hand, some of the course principles and their importance for company success.

**Class Contribution**: Class contribution scores are based on the impact you have on the class discussion, not on the amount of time or frequency of participation. Please note that it is class contribution rather than participation that will be graded. In order to have

an impact on the class discussion, it is important to be a good listener as well as to make persuasive arguments.

Managers must often “sell” their ideas to others in order to get their acceptance and support. In this course, the classroom provides a laboratory in which you can test your ability to convince your peers of the appropriateness of your approach to complex management problems. Furthermore, it tests your ability to carefully listen to others’ perspectives and understand why they may reach a different conclusion. Before you can effectively sell your ideas to others, you must understand what is motivating them, what issues they feel are important, and what assumptions they are making that may be different from your own.

Most of your learning will occur in preparation for and participating in the case discussions. To enhance your preparation and learning, I strongly encourage you to form study groups to discuss the cases prior to class. To guide you in your preparation, this syllabus includes discussion questions for each case.

**Individual Assignment:** This assignment is due on **January 16**. In 2 PowerPoint Slides (excluding title slide), please answer the discussion questions assigned for class 3, corresponding to the case “\$19B 4 txt app WhatsApp...omg!” (HBS 715441).

**Group Assignment:** In addition, there are a few group assignments based on the discussion questions that are noted in the syllabus, which need to be submitted on Carmen/Canvas. These assignments consist of your answering the ‘discussion questions’ proposed for a total of 2 cases (excluding the case already assigned for the individual assignment above). Each assignment is to be submitted a day prior to class, in 3-5 PowerPoint slides. Please note that if a case is not assigned, you may not submit an assignment for that class. Each assignment carries equal weight. The deadline for submission of these documents is one day before the date of the corresponding class.

For example, if a case discussion is scheduled in class on a Thursday, you should submit the assignment by the end of Wednesday.

If you need any clarification, please be sure to ask the instructor before the case discussion.

### **Identifying Individual Contributions in Group Work:**

I will assume that each student has made roughly equal contribution to the group project and assignments. But if you feel that this is not the case in your group, we can have each member of the group report their assessment of all other group members' contribution to the effort.

### **Meetings**

I encourage you to talk to me about any aspect of your work. I am very accessible. Please feel free to call, send me an email, or make an appointment.

## **COURSE MATERIALS**

There is no required textbook. There is a course-pack consisting of cases. In addition, several of the cases will be provided without charge on Carmen.

### **Suggested Additional Readings**

Following are some books, recommended to complement your understanding of the drivers of value creation in M&A processes.

- *“Managing Acquisitions: Creating Value through Corporate Renewal”*, Haspeslagh & Jemison (1991), Free Press.
- *“From Promise to Performance”*, Bauman, Jackson & Lawrence (1997), Harvard Business School Press

- *"The Synergy Trap"*, Sirower (1997), Free Press.
- *"Joining Forces"*, Marks & Mirvis (1998), Jossey-bass
- *"Winning the Merger Endgame"*, Deans, Kroeger & Zeisel, (2003), McGraw Hill
- *"Applied Mergers and Acquisitions"*, Bruner (2004), Wiley
- *"Deals from Hell"*, Bruner (2005), Wiley
- *"Mergers & Acquisitions: Managing Culture and Human Resources"*, Stahl, Mendenhall & Mark (2005), Stanford Business Books
- *"M&A Integration: How To Do It"*, Danny Davis (2012), Wiley

And following are some articles that you may find relevant and interesting. These can be accessed through the library.

- Desperately Seeking Synergy (HBR, 1998)
- Emerging Giants: Building World Class Companies in Developing Countries (HBR, 2006)
- How GE is Disrupting Itself, (HBR 2009)
- When to walk away from a deal (HBR, 2004)
- From competitive advantage to corporate strategy (HBR, 1987)
- When to Ally, When to Acquire (HBR, 2004)
- Integration Managers (HBR, 2000)
- The New M&A Playbook (HBR, 2011)

## ABOUT YOUR INSTRUCTOR

### Professor Jay Anand

Jaideep (Jay) Anand is the William H. Davis Chair and Dean's Distinguished Professor of Strategy at the Fisher College of Business, Ohio State University. Prior to joining Fisher, he was faculty at the University of Michigan (Ross). He earned a B.Tech. in Mechanical Engineering from the Indian Institute of Technology, New Delhi, India, and master's and Ph.D. degrees from the Wharton School, University of Pennsylvania. His interests include corporate growth, mergers & acquisitions, joint ventures & strategic alliances, global strategy and strategy implementation.

He regularly consults and conducts executive education programs with companies all over the world. He has worked in more than a dozen countries in Africa, the Americas, Asia and Europe. He has appeared on *ABC*, *NBC* and *CBS TV News*, *National Public Radio* and *Summit Business TV* and has been referenced in BBC radio, *CEO magazine*, *The Economist*, *Financial Times*, *Forbes*, *Knowledge@Wharton*, *New York Times*, *The Telegraph*, *Wall Street Journal*, *USA Today* and other popular media in several countries. He has received several awards for his teaching and contribution to management knowledge, including Best Research Paper Award in Innovation Management (2015), Outstanding Editorial Board Member from the *Strategic Management Journal* (2010), the Best Reviewer Award from *JIBS* (2009), the Pacesetter Research Award (top research award at Fisher College) (2008), Executive education teaching awards (2014 & 2009), MBA Teaching awards (2016, 2012, 2011, 2009, 2007, 2003 and 1997), Best PhD Teacher award nomination (2004 and 2001), Booz, Allen and Hamilton Fellowship (2002), Best Research Paper Award in International Management (2001), the Outstanding Reviewer award from the Academy of Management (2000), F.W.P. Jones Award for Outstanding Faculty (1996-98), and several other international awards for research and professional excellence, and has been selected for inclusion in *Who's Who in America* since 2006.

He is the elected chair of the Academy of Management (the largest academic association in the field of management), IM division, Associate Editor of the *Global Strategy Journal* and is or has been a member of the editorial boards of *Strategic Management Journal*, *Organization Science*, *Journal of International Business Studies*, and *Journal of Management Studies*. His research has been published in business press (including the *Financial Times*, *California Management Review* and the *Columbia Journal of World Business*), academic journals (including the *Academy of Management Journal*, *Strategic Management Journal* and *Organization Science*), and has been widely presented at research conferences around the world.

## CLASS SCHEDULE

### **Class 1 (January 10): Strategies for Corporate Growth**

**Mini-Case:** AT&T-T-Mobile (Fisher, available on Canvas)

### **Class 2 (January 12): Understanding Value Creation in M&A**

**Reading:** The Synergy Limitation Paradox (Columbia Case Works ID#120409)

### **Class 3 (January 17): Understanding Value Creation in M&A (contd.)**

**Case:** \$19B 4 txt app WhatsApp...omg! (HBS 715441)

#### **Discussion Questions:**

1. Do you think WhatsApp would be more valuable as a business after its acquisition by Facebook? What are some potential sources of economic opportunities that this acquisition brings? What would be some of the challenges?
3. Identify the conditions under which this acquisition can create value for Facebook's shareholders.
4. Do you believe that Facebook's previous acquisition of Instagram was a good idea? What are the implications of that experience for the acquisition of WhatsApp?

### **Class 4 (January 19): Technology Related M&A**

**Case:** Cisco Systems: New Millennium-New Acquisition Strategy? (INSEAD, 2010)

**Read:** The Acquisition of Technology is the Acquisition of People (Stanford, 2001)

**We will discuss both the case and the reading!**

#### **Discussion Questions:**

1. Cisco is one of the best examples of a value innovator, which successfully used acquisitions to establish a dominating position in new market space. Identify what you believe are the most important elements (criteria, processes, specific actions etc.) of Cisco's approach to selecting and integrating acquisitions.
2. For each of the elements you have identified describe why it is important (what is its purpose?), and specify whether you would characterize it as typical (conventional practice by companies doing technology acquisitions) or unusual?
3. Of the various stages in the evolution of Cisco's acquisition strategy, in which stage do you think Cisco was able to create the most value?

### **Class 5 (January 24): Technology Related M&A (contd.)**

### **Class 6 (January 26): Diversification Strategies**

**Case:** Gillette's Energy Drain (A): The Acquisition of Duracell (Ivey, 2004)

#### **Discussion Questions:**

1. If you were James Kilt, the CEO of Gillette, what strategic actions would you take to turn Duracell around?
2. What are the impacts of Duracell's introduction of Ultra on the nature of competition in the battery industry?
3. What could Gillette have done differently in 1996 that would have had a more positive impact on company and industry profitability?
4. Why was Gillette unable to achieve the same success in batteries that it had been able to achieve in shaving products?

### **Class 7 (January 31): Diversification Strategies (contd.)**

**Read:** Franko, The Death of Diversification? The Focusing of the World's Industrial Firms, 1980-2000 (*Business Horizons*, 2004)

**Case:** To be distributed in class

### **Class 8 (February 2): Corporate Restructuring**

**Reading:** Acid Tests of Corporate Advantage (Columbia Case Works ID#110406)

#### **Discussion Questions:**

1. Identify a recent case of "corporate restructuring", in which a single company has split into two.
2. Does this split create value? If so, what is its source?
3. What is the role of implementation in creating corporate value in this case?

### **Class 9 (February 7): Globalization & Global Strategy**

**Reading:** Should You Have A Global Strategy? (SMR 396, 2011)

**Case:** Technical change in the Insulin Business (available on Canvas)

#### **Discussion Questions:**

1. Why has competition in the traditional animal based insulin business primarily been on a country-by-country basis?
2. How do you expect the new genetics based technology to change the nature of competition?

**Class 10 (February 9): Globalization & Global Strategy (contd.)**

**Case:** Wal-Mart around the World (HBS 714-469, 2013)

**Discussion Questions:**

1. Evaluate Walmart's globalization strategy over the last couple of decades. Where did the retailer struggle? Can location characteristics explain the differences in its performance?
2. Walmart entered some countries through acquisitions and in some countries through green-field investment. What mode of entry was the best? Why? Did location characteristics drive the mode of entry?
3. In 2013, Walmart decided to enter the Indian market in a joint venture with Bharti. Based on your analysis of Walmart's global expansion up to that point, do you think it was a good idea to go to India? To select joint venture as the mode of entry?

**Class 11 (February 14): Alternatives to M&A: Strategic Alliances & Joint Ventures**

**Read:** The Decline of Emerging Economy Joint Ventures, *California Management Review*, 2006

**Class 12 (February 16): Alternatives to M&A: Internal Development & Entrepreneurship**

**Case:** GE Energy Management (A) (Ivey case)

**Discussion Questions:**

1. Assess the attractiveness of the energy management industry and the key success factors for operating in it. Is this an industry that GE should enter?
2. What are the advantages and disadvantages of the GE organizational system for starting a new business such as energy management?
3. What action would you take as Raj Bhatt now?

**Class 13 (February 21): Alternatives to M&A: Internal Development & Entrepreneurship (contd.)**

**Case:** GE Energy Management (B) (Ivey case, to be handed out)

**Class 14 (February 23): Strategies for the 'Bottom of the Pyramid'**

**Case:** Essilor's "Base of the Pyramid" Strategy in India (HEC, 308-366-1) and financial spreadsheet (on Canvas)

**Readings:** Serving the World's Poor, Profitably (HBR R0209C);

The Mirage of Marketing to the Bottom of the Pyramid: How the private sector can help alleviate poverty (CMR373)

**Discussion Questions:**



1. Would you advise to scale up the refractive van operation? To what extent? At what pace? Through which means?
2. Would you advise Essilor corporate headquarters to support the project?
3. If you were an Essilor shareholder, how would you assess the project?