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Impact of Business Evaluation Process on Mergers and Acquisitions Outcome

Hassan, Ibne

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Impact of Business Evaluation Process on Mergers and Acquisitions Outcome

Thesis submitted for the degree of Doctor of Philosophy (PhD) in
Management Studies specializing in International Business

Ibne Hassan

May, 2013

King's College London

Impact of Business Evaluation Process on Mergers and Acquisitions Outcome

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Preface

My research is related to Mergers and Acquisitions, considered as the back bone of international business. It touches the sensitive issue of their outcome, generally considered as failures in most of the cases, from the perspective of processes involved in the evaluation of the firms by acquiring firm's management, thus, redefining the scope of business evaluation to make it more realistic and effective. Findings would help the managers in strengthening the merger and acquisition process as well as, on broader scale, doing business in foreign countries.

I would like to express my sincere thanks to all those who have assisted me and offered their support throughout my period of reading for this degree. Such a debt is owed to numerous individuals and organizations.

First and foremost I should like to thank my supervisors Professor Dr. Pervez N Ghauri and Dr. Fatima Wang in Management Department at the King's College, London. They provided invaluable guidance, feedback and criticism throughout the process, but they also assisted in clarifying and developing the tools, methodologies, insights, interpretations, and presentation of the results.

I am extremely grateful to all of the interviewees, anonymous as they wished to remain, in the Technology and Telecommunication industry whom I interviewed in different countries; United Kingdom, Switzerland and Netherlands. They gave their time generously, willingly sharing important information concerning the Merger and Acquisition transactions they were involved in as a representative of their firms.

Final thanks and warmest gratitude go to my family members. They, no matter what day or time it was, wherever in the world they happened to be, gave me much support and comfort over the last few years more than I could ever have asked for.

Abstract

Mergers and Acquisitions (M&As) have been on the rise since last three decades and have attracted considerable attention from the research community. Conclusion drawn by some of the studies are that such transactions do not result in better performance or that they erode acquiring firm's shareholder value and produce highly volatile market returns. A number of studies have analyzed reasons for such inefficiencies and have pointed out several factors. However, very little attention has been given to business evaluation process as an influencing factor. This study investigates that how the processes involved in the evaluation of a target firm influence the outcome of the M&As?

The research objective requires insight of the situations accruing at the time of happening of a particular event by interacting with those involved in the process. Considering the exploratory nature of the research question, the study adopts a comparative Case Study methodology to investigate the impact of business evaluation on the performance of M&As.

The findings reveal that processes related to business evaluation have a significant impact on the outcome of the Merger and Acquisition (M&A) transactions. Sounder, controlled and inter linked processes can ensure better chances of their success. Further, the boundaries of the business evaluation processes, for the sake of M&A transactions, need to be elaborated to make performance assessment as its integral part. This would help in shaping the performance of the transactions by taking remedial steps during their implementation. The study complements earlier studies and provides a holistic view on the factors influencing performance of such transactions. Hence, outcome of the study would bring clarity in understanding the relationship and behavior between different components and related factors of business evaluation and M&A performance.

1 Introduction

The study is focused on the subject of M&A, dealing with the transactions, involving firms or businesses of different countries. Such transactions and their outcomes are significant not only for the businesses involved but are also of prime importance for the economies of related countries (Benito, 2005), as they are not only undertaken for the expansion of businesses, but also as a solution to many economic ills through redistribution of billions of dollars of corporate assets and shareholder wealth. Let alone, the fact that such deals reconfigure industries, fundamentally reshape corporate strategies, transform organizational cultures, and affect the livelihoods of employees (Marks and Mirvis, 1998, 2001; Walsh and Ellwood, 1991). This is substantiated by fact that during 2011 the value of such transaction (net purchase) world over was \$552.881 million compared to the previous year of \$344.029 million, though, both these figures were less than the pre-recession year of 2007 when it was \$1,002.725 million (UNCTAD, 2012).

Recognizing the vitality of the subject a lot of research has been carried out on M&As. According to Halebian et al. (2009) published articles on mergers can be classified on the academic discipline basis like management, finance, economics, sociology and accounting; and among these management and finance, to which this research relates, had a major share. They have analyzed that research carried out on M&A can be broadly categorized into two major well known groups; strategy and process management. Sixty one percent of the papers published in top-ranking management journals fall within the broad domain of strategy, including articles dealing with the performance outcomes of M&A transactions; firms' M&A-related strategic decisions. Around thirty percent represented thematical area broadly related to M&A management focusing on: the process of pre-acquisition management and post-deal integration; the human side of M&A activity; the cultural issues at stake; knowledge related perspectives; and still advertising/marketing or media perspectives to M&A. Where four to five percent of the papers related to the domain of finance - clearly under-representative - and only one finance journal was included in the sample (Cartwright et al., 2012).

Findings of some of these studies suggested that acquisitions did not enhance acquiring firm value, as measured by either short-term (Asquith, 1983; Jarrell and Poulsen, 1989; Malatesta, 1983) or long-term performance measures (Agarwal et al., 1992; Asquith, 1983; Loderer and Martin, 1992). More specifically, acquisitions were often found to erode acquiring firm value (Morck et al., 1990; Jennings and Mazzeo, 1991; Byrd and Hickman, 1992) and produce highly volatile market returns (Langetieg et al., 1980; Pablo et al., 1996).

“Merger booms usually peak with the kind of deal that resembles a Las Vegas wedding after an alcohol-fuelled night: both parties regret it in the morning. (Think AOL and Time Warner in 2000.) Indeed, an awful lot of Merger and Acquisition turns out badly. Biennial KPMG surveys of transactions have never found more than 34% of deals adding value. Many acquirers are subject to the “winner’s curse”. In their eagerness to make a deal, they end up overpaying. Then again, bitter experience does not stop people from embarking on their third or fourth marriages”. (Buttonwood, 2013 p.64)

The failures or results falling short of the expectations have been investigated through the lenses of Management, Organizational, Cultural, Human Resource, Social, Political, Geographical factors (Bertrand and Betschinger, 2012; Weber and Rachman, 2012; Bugeja, 2011; Colman and Lunnan, 2011; Hannan and Steven, 2009; Beaulieu et al., 2005). This has helped firms in dealing with such factors while going for the transactions. In contrast, some other aspects impacting the outcome of the transactions remained untapped, one of those areas is related to the process being followed by the acquiring firms in making assessment of the target firm to judge the viability of the transaction and related matters – called Business Evaluation - by keeping in view the objective behind the transaction (Haleblian et al., 2009); investigated through this study.

The need for research on business evaluation process has also been substantiated by Shi et al. (2012), based upon study of 144 articles on M&A, by identifying a significant gap in the literature, stating that there were several promising research directions for the direct conceptualization and measurement of time constructs. They emphasized that directly studying time constructs such as speed, pace, rhythm, and sequence is important because they are subject to management control, and how they are managed can inform us as to their impact on organizational outcomes.

This section of the thesis has been structured to elaborate ingredients of the research: the concept of M&A, related valuation methods and their basis; defining Business Evaluation and its scope including performance assessment; significance of M&A as a subject; and finally the importance of the study and likely contribution it can make. All this would help in bringing clarity on the discussion in the rest of the thesis and would amplify its importance.

1.1 Concept of Merger and Acquisition

M&As are mostly performed in the hope of realizing an economic gain, other than social or political objectives. For such a transaction to be justified, the two firms involved must be worth more together than they were apart. Some of the transactions’ potential advantages include achieving economies of scale, combining complementary resources, garnering tax advantages, and eliminating inefficiencies (Camargos and Coutinho, 2008; Gaughan, 2010). Other reasons for

considering growth through M&A include obtaining proprietary rights to products or services, increasing market power by purchasing competitors, shoring up weaknesses in key business areas, penetrating new geographic regions, or providing managers with new opportunities for career growth and advancement (James, 2005).

In principle, the decision to merge with or acquire another firm is a capital budgeting decision much like any other investment decision but mergers differ in at least five ways: first, the value of a merger may depend on such things as strategic fits that are difficult to measure; second, the accounting, tax, and legal aspects of a merger can be complex; third, mergers often involve issues of corporate control and are means of replacing existing management; fourth, mergers obviously affect the value of the firm, but they also affect the relative value of the stocks and bonds; and finally, mergers are often “unfriendly” (Sherman and Hart, 2006; Pautler, 2001; Camargos and Coutinho, 2008).

1.1.1 Modes of Merger and Acquisition

According to Pautler (2001) M&As process may take place in different forms depending upon:

- i) Purpose to be achieved
- ii) Legal status of the firms, either they are listed or non listed limited companies, or partnerships, etc.
- iii) Location of the firms, whether both are operating in same or different countries
- iv) Taxation and other related laws
- v) Nature of the businesses and their operations

The modes of M&A transactions can either be:

- a) Mergers
- b) Amalgamations
- c) Acquisitions
- d) Takeovers
- e) Purchase of Business

a) Merger

A combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm. Although the buying firm may be a considerably different organization after merger but it retains its original identity (Sherman and Hart, 2006). In simple words it is a process through which business of a firm is taken over by another firm and the target firm ceases to exist (Pautler, 2001). The merger of Alcon into Novartis in 2011 by way of issuance of 165 million Novartis shares to Alcon shareholders is an example.

b) Amalgamation

Amalgamation takes place when two firms combine their businesses by forming a new firm as in 2004 amalgamation of Sprint and Nextel of \$ 36 billion took place, and a new

company called Sprint Nextel was formed with equal shareholding. Under the arrangement, assets - including tangible and intangible - and liabilities of both the old firms are taken over by the new firm. And on the basis on the net worth of both the firms, determined separately and agreed upon by both the parties, the shareholders of both firms become the shareholders of new firm (Pautler, 2001; Sherman and Hart, 2006).

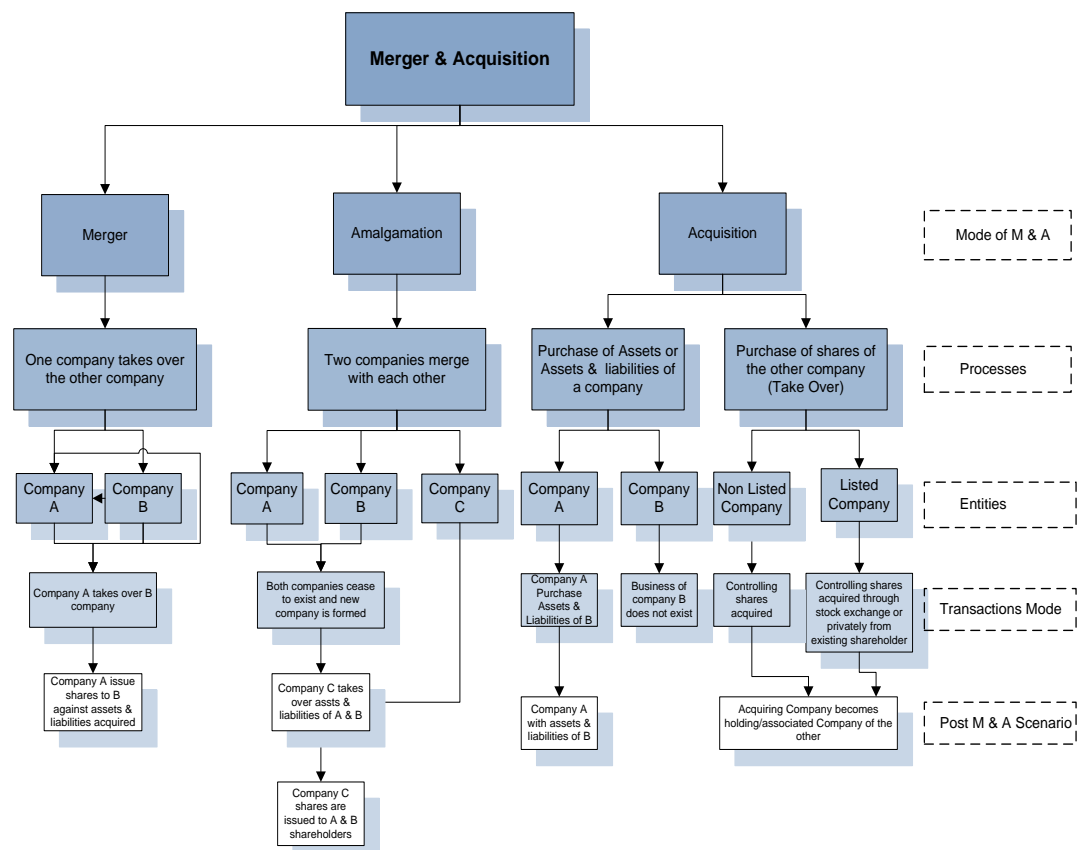
c) Acquisition

Sherman and Hart (2006) have argued that acquisition can take place in either of the following ways:

- i) Purchase of the other business assets or net assets i.e. assets less liabilities taken over. Against this purchase the consideration as agreed between the concerned parties' i.e. seller and buyer firms is paid either by way of cash or buy issuing some loan instrument.
- ii) Acquiring the management of a firm by way of purchase of controlling shares, owing to the nature of the transaction it is also called "Take Over"; It can be defined as "Hostile Take Over" when it is carried out in a manner to avoid legal procedure defined for such sort of transactions.

The above discussion on the concept of M&A has been pictorially presented in Figure 1.

Figure 1: Merger and Acquisition Concept



(Source based on several studies: Sherman and Hart, 2006; Gaughan, 2010; James, 2005; Pautler, 2001)

Thanks to the financial crisis, another type of merger called “Virtual Merger” has been coined these days, meaning more than one firm in the same business joining together to pool their resources, but not legally or formally joining hands, to meet some challenges. This has been followed in Spain by small banks controlled by the Roman Catholic church in Cordoba, “...four cajas announced their intention to create a joint banking group, known as a system of institutional protection, to pool resources, called “virtual” mergers, racing to meet a June 30th deadline to tap money from the state’s €99bn Fund for Orderly Bank Restructuring (FROB).” (The Economist, 2010 b p.68)

1.1.2 Varieties of Merger and Acquisition

From the perspective of nature of business, according to Camargos and Coutinho (2008); Sherman and Hart (2006); and Ijlal (2010) M&As can be classified in the following manner:

- i) **Horizontal merger** – Two companies that are in direct competition and share the same product lines and markets.
- ii) **Vertical merger** – A customer and firm or a supplier and firm, a cone supplier merging with an ice cream maker.
- iii) **Market-extension merger** – Two companies sell the same products in different markets.
- iv) **Product-extension merger** – Two companies sell different but related products in the same market.
- v) **Conglomeration** – Two companies that have no common business areas.

Characteristically, this study relates to all modes and varieties of M&As, without any discrimination, as business evaluation process and its likely impact is inherent part of all such transactions irrespective of their nature and type.

1.2 Significance of Mergers & Acquisitions

M&As are of wider significance for local as well as for international businesses when one needs to address number of issues pertaining to the scale of economies, restructuring and expansions with the objective of improving viability. Besides business, these transactions ensure economic stability of a country either through foreign investments or finding solution for economic recessions through redistribution of billions of dollars of corporate assets and shareholder wealth, apart from the fact that they reconfigure industries, fundamentally reshape corporate strategies, transform organizational cultures, and affect the livelihoods of employees (Marks and Mirvis, 1998, 2001; Walsh and Ellwood, 1991).

M&As are not only significant for the local firms for the purpose of expansions and bringing economies of scales in their operation but are also important internationally. The concept of Foreign Direct Investment (FDI) is thriving vitally because of such transactions as they promote increased economic interdependence among nations and regions. Consequently, the interest in these organizations is understandable given their economic influence and scale (Benito, 2005).

Talking specifically about emerging economies regarding entrepreneurial expertise, knowledge and resources to develop innovation activities, there is a skills gap that can be narrowed by trade-related and FDI-related knowledge spillovers (Javorcik, 2004). M&A transactions have been viewed as the main channel for technology spillovers, by facilitating indirect transfer of technological knowledge through different economic activities that embody technological advancement (Buckley et al., 2002; Coe and Helpman, 1995; Wei and Liu, 2006).

M&A activity has been viewed as a tool for everything from increasing market share to diversifying products and services; gaining operational flexibility, new skills, and personnel; improving innovation and learning; sharing risk; pruning managerial deadwood; and trimming the fat in the national economy and increasing global competitiveness (Jensen, 1993; Marks and Mirvis, 1998, 2001; Walsh and Ellwood, 1991; Colvin, 1999). Borensztein et al. (1998) developed a growth model in which technological progress, represented by increasing varieties of capital goods, has been determined by FDI, as multinationals can reduce the costs of introducing new varieties of capital goods. This cost factor, resulting in technology transfer and R&D spillovers, causes increase in investment as well as enhances efficiency and provides growth momentum (Liu et al., 2009).

Cross-border M&A activities generate potential for learning and innovation across country boundaries (Harzing, 2002). Acquired firms have an advantage against domestic rivals to undertake innovative activities on account of opportunities to transfer technological knowledge internally across different divisions and geographical markets (Belderbos, 2001; Harzing, 2002). M&A activities, hence, may influence the innovative performance of local firms through inter-industry linkages (Liu and Zou, 2008).

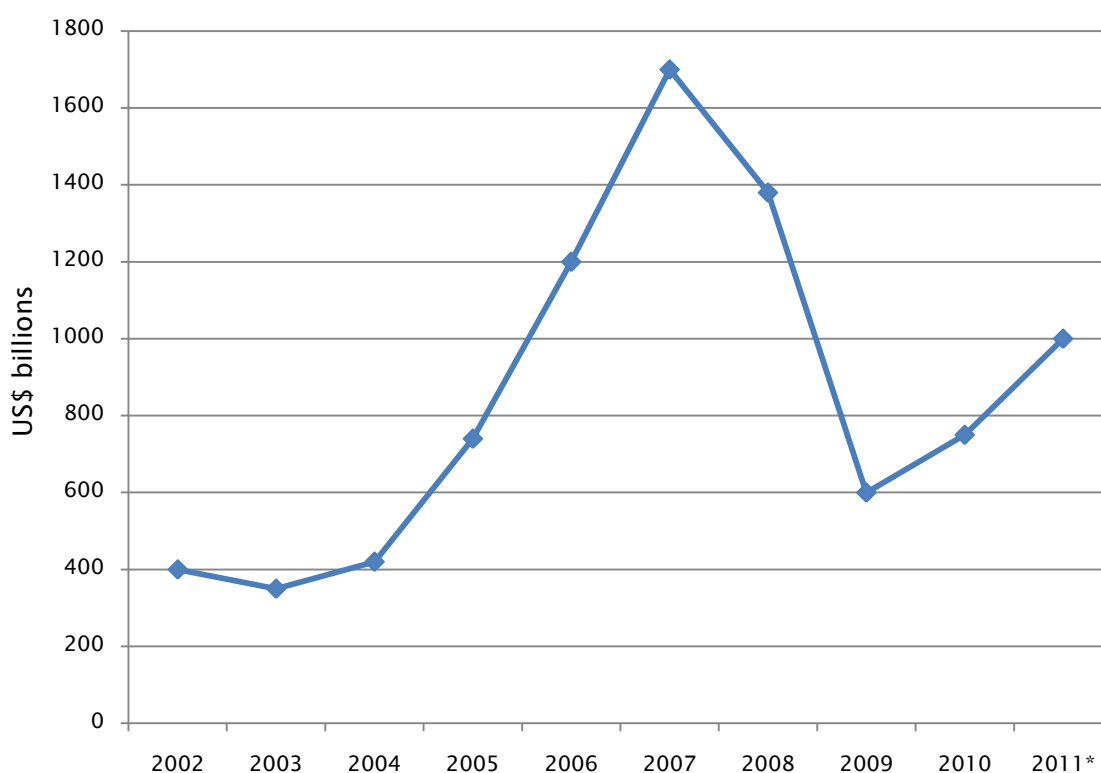
Similarly, international entrepreneurial orientation or global orientation is important and has competitive advantage over the other firms (Dai and Liu, 2009; Levitt, 1983; Nadkarni and Perez, 2007). Harvard Business School study of nine of the world's largest corporations revealed that the transnational mindset led to superior long-term performance (Levy et al., 2007). It has been argued that the performance of a venture is positively related to the innovation based on international experience relating to entrepreneurial orientation, market orientation and learning orientation (Fredric et al., 2006). To conclude, export expansion, import liberalization, FDI inflows and inward M&As are integral elements in the growth process of developing economies,

which suggests that development strategies should be designed to promote such transactions or activities simultaneously (Liu et al., 2009).

The world wide trends of M&As transactions since late 19th century were witnessed in a number of forms, across industries and regions (Faulkner et al., 2012). This has resulted in six recorded M&A ‘waves’ characterized by periods of more intensive deal activity, in addition to an ongoing transaction activity carried out regardless of economic cycle (Haleblian et al., 2012). With the entry of the emerging market players into the M&A game since the early 21st century (Kale and Singh, 2009), despite the current global financial uncertainty, it seems unlikely that M&A activity will dwindle. As the history of many multinationals or FTSE 100 companies would attest, M&As have been the basis of the growth strategy of many firms and have influenced competitive and industry dynamics globally across sectors (Hill and Jones, 2011; Lynch, 2006).

The trend of value of M&A transactions from 2002 to 2011 is given in Figure 2.

Figure 2: International Mergers and Acquisitions’ Trend



* Linear Projection based on data through 21 October, 2011
(Source: Data from Dealogic)

The value of cross-border M&A transactions on the basis of economy/region of Purchaser and Seller from the year 2006 to 2011, to demonstrate their significance and trend over a period of time is presented in Table 1.

Table 1: Value of Cross-border Mergers and Acquisitions by Region**Millions of US Dollars**

Region/economy	Net Sales						Net Purchase					
	2006	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010	2011
World	625 320	1 022 725	706 543	249 732	344 029	525 881	625 320	1 022 725	706 543	249 732	344 029	525 881
Developed economies	527 152	891 896	581 394	203 530	257 152	409 691	497 324	841 714	568 041	160 785	223 726	400 929
Europe	350 740	559 082	273 301	133 871	124 973	200 363	300 382	568 988	358 981	102 709	41 943	145 542
European Union	333 337	527 718	251 169	116 226	115 974	172 257	260 680	537 890	306 734	89 694	25 960	117 050
Austria	1 145	9 661	1 327	1 797	432	6 928	6 985	4 720	3 049	3 345	1 523	3 627
Belgium	1 794	961	2 491	12 089	9 444	3 920	3 640	8 258	30 146	- 9 638	222	7 757
Bulgaria	807	971	227	151	24	- 96	-	5	7	2	19	-
Cyprus	294	1 343	- 909	52	680	780	1 274	775	1 725	1 395	- 39	3 903
Czech Republic	1 154	107	5 169	2 669	- 457	725	812	846	34	1 608	14	26
Denmark	11 235	5 761	6 095	1 651	1 448	7 695	2 078	3 226	2 841	3 198	- 3 427	252
Estonia	3	- 57	110	28	3	239	179	-	4	- 0	4	-
Finland	1 321	8 313	1 153	508	324	973	2 169	- 1 128	13 179	653	391	3 303
France	19 423	28 207	4 590	724	3 837	24 325	41 030	78 451	56 806	41 565	6 117	31 804
Germany	41 388	44 091	31 911	12 790	8 507	12 709	16 427	58 795	61 340	24 313	6 848	4 801
Greece	7 309	723	6 903	477	- 819	1 205	5 238	1 495	2 697	386	520	79
Hungary	2 337	721	1 559	1 853	213	1 714	1 522	1	41	0	799	17
Ireland	2 731	811	2 892	1 712	2 127	2 181	10 176	6 677	3 693	- 526	5 101	- 6 018
Italy	25 760	23 630	- 2 377	1 109	6 329	13 450	6 887	55 880	21 358	17 505	- 6 193	4 176
Latvia	11	47	195	109	72	2	-	4	3	- 30	40	- 3
Lithuania	97	35	98	20	462	386	-	30	31	-	4	4
Luxembourg	35 005	7 339	- 3 570	444	5 446	9 393	15 539	22 631	8 109	3 382	431	- 20 751
Malta	517	- 86	-	13	315	-	115	-	- 25	-	235	13
Netherlands	25 560	162 770	- 8 156	17 988	4 113	14 031	51 304	- 3 268	53 668	- 3 273	20 112	19 750
Poland	773	728	966	776	1 063	10 043	194	128	432	117	292	511
Portugal	537	1 715	- 1 279	504	2 208	911	644	4 023	1 164	1 236	- 8 965	2 404
Romania	5 324	1 926	993	314	148	88	-	-	4	7	24	-
Slovakia	194	50	136	13	-	0	- 142	-	-	-	-	- 18
Slovenia	15	57	418	-	332	51	29	74	320	251	- 50	- 10
Spain	7 951	51 686	33 708	32 173	8 669	17 298	71 481	40 893	- 14 654	- 1 278	1 367	11 579
Sweden	15 228	4 563	18 770	1 098	221	7 616	3 199	32 390	6 108	9 024	796	- 4 032
United Kingdom	125 421	171 646	147 748	25 164	60 833	35 691	19 900	222 984	54 653	- 3 546	- 227	53 876
Other developed Europe	17 403	31 363	22 132	17 645	8 999	28 106	39 702	31 099	52 247	13 015	15 983	28 493
North America	165 591	265 866	262 698	51 475	97 914	164 365	138 576	226 646	114 314	40 477	118 147	170 425
Canada	37 841	100 888	35 253	11 389	14 917	30 263	20 848	46 751	44 141	16 718	30 794	40 215
United States	127 750	164 978	227 445	40 085	82 996	134 103	117 729	179 895	70 173	23 760	87 353	130 210
Other developed countries	10 821	66 948	45 395	18 185	34 265	44 963	58 366	46 080	94 747	17 598	63 636	84 962
Developing economies	89 163	100 381	104 812	39 077	82 378	83 220	114 922	144 830	105 849	73 975	98 149	103 615
Africa	11 181	8 076	21 193	5 140	8 072	7 205	15 913	9 891	8 216	2 702	3 309	4 812
North Africa	6 773	2 182	16 283	1 475	1 141	1 353	5 633	1 401	4 665	1 004	1 471	17
Other Africa	4 408	5 894	4 910	3 665	6 931	5 853	10 279	8 490	3 551	1 697	1 838	4 795
Asia	65 250	71 423	68 909	38 291	36 873	55 302	70 792	94 469	94 398	67 310	79 013	80 179
East & South-East Asia	34 936	43 451	39 968	28 654	26 417	32 715	28 696	25 270	58 810	40 176	67 609	67 966
Latin America and the Caribbean	12 768	20 648	15 452	- 4 358	28 414	20 689	28 064	40 195	2 466	3 740	15 831	18 659
South America	4 503	13 697	8 121	- 5 342	17 045	16 271	19 923	13 152	4 765	3 104	12 900	10 145
Transition economies	9 005	30 448	20 337	7 125	4 499	32 970	2 940	21 729	20 167	7 432	5 693	13 510

(Source: UNCTAD cross-border Merger and Acquisition database (www.unctad.org/fdistatistics)).

Note: Cross-border Merger and Acquisition sales and purchases are calculated on a net basis as follows: Net cross-border Merger and Acquisition sales in a host economy = Sales of companies in the host economy to foreign TNCs (-) Sales of foreign affiliates in the host economy; Net cross-border Merger and Acquisition purchases by a home economy = Purchases of companies abroad by home-based TNCs (-) Sales of foreign affiliates of home-based TNCs. The data cover only those deals that involved an acquisition of an equity stake of more than 10 per cent.

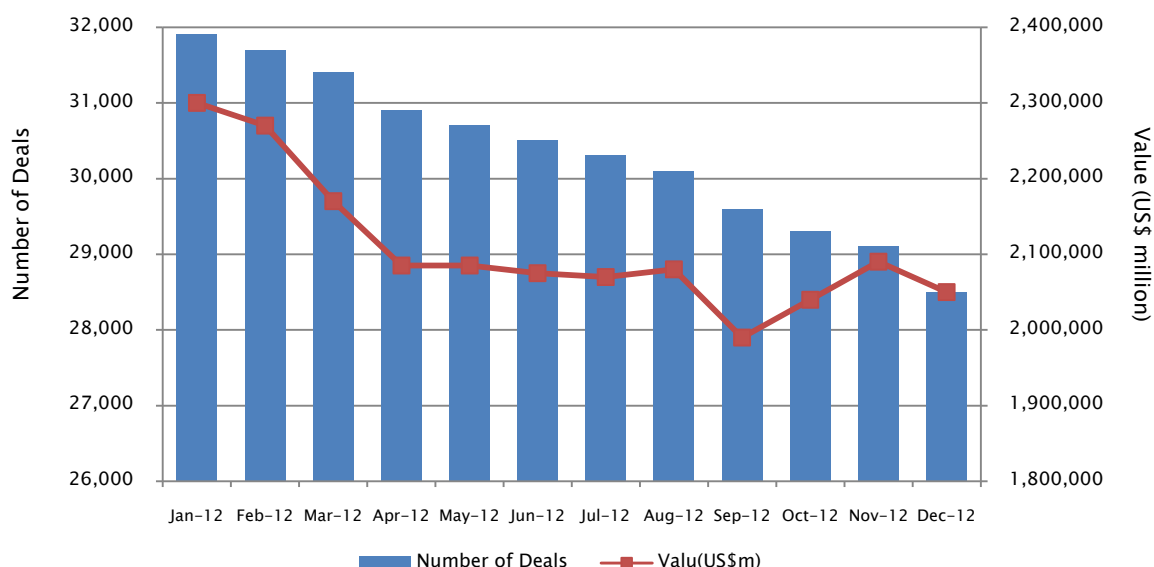
As shown in the Figure 2, all over the world the value of transactions from 2005 to 2007 increased by 143%. Out of which major increase was in the year 2007 when compared with 2006 i.e. 70%. After 2007 the value of the transactions showed a declining trend and in 2009 the volume of the transactions was reduced by 65% compared to year 2007. In the year 2010 the position substantially improved as in this year the trend showed an increase of 25% over the preceding year. As per Table 1 (based on economy of purchaser) in 2010 Europe's share was 12%, US 26% and developing regions 28%, compared with the boom year of 2007 when Europe transactions were 56%, US 18% and developing countries 14%. The trend of such transactions can be measured by the fact that over the period from 2006 to 2011, Europe registered decline by 52%, USA recorded increase of 11% and developing countries recorded a decline of 10%. It can, therefore, be concluded that based upon the above data, M&A transaction recorded substantial growth till 2007 but afterward on account of recession in the world economy the transaction started declining. From 2009 onward the declining trend has reversed and growth sign started emerging. In this trend the sufferer was Europe and developing countries, where USA marked a reasonable growth.

In 2012 the dollar value of M&As was flat, 28% of chief executives surveyed by PwC, an accountancy firm, said they planned to make one or more acquisitions during 2013, lower than a year earlier. According to the survey 42% of American bosses planned some M&As, but that was in the same proportion as in the 2012 survey. But Bob Moritz, who runs PwC in America says, *"From what I'm hearing, if the recent momentum in confidence continues, there may be a lot more merger activity in the second half of the year"*. (The Economist, 2013 p.57)

In the first three quarters of 2012 M&A activity worldwide was 17.4% lower than in the same period of 2011. Yet it surged in the fourth quarter, to the highest level of any quarter in the past four years. This was one reason to expect more mergers in the year 2013, according to report by Wachtell, Lipton, Rosen & Katz, a law firm that specializes in M&A. From a financial point of view, the conditions in 2013 are favorable for the transactions as the credit is cheap, balance sheets are strong as many firms have voluminous cash reserves. But on account of past few years obsessing about risk management, directors may not easily be persuaded to support even straightforward deals. Hence, such deals could be more focused on cost-saving and margin-boosting, which were being carried out since financial crisis. On sector basis, in 2012 oil-and-gas deals reached an all time high as the companies were in consolidation phase, positive trend was also observed in banking and professional services sectors. Similarly, retailers and makers of consumer packaged goods did well and same trend is expected in the 2013. (The Economist, 2013)

The trend of worldwide completed deals during the year 2012 is given in the Figure 3.

Figure 3: Worldwide completed deals: 1 year trailing Jan-12- Dec-12



(Source: KPMG, 2013 p.3)

As apparent from Figure 3, the rising confidence levels started to emerge in completed deals in 2012, with deal values bottoming out towards the end of the year. Overall, the outlook for 2013 shall be more positive than it had been for over 2 years. The worst of the global downturn is expected to be over, and number of key global markets is likely to regain some stability. After a protracted period of negativity, the capacity of corporate to undertake M&A shall be finally matching with the confidence to do deals (KPMG, 2013).

1.3 Defining Business Evaluation

Generally, business evaluation in broader terms is segregated into following two components:

1.3.1 Selection of Target Firm

The selection of a target firm is not possible unless and until the merger objective is defined, without clarity on the objective other factors pertaining to selection like mode of the transaction, level of shareholding, mode of settlement of transaction etc. cannot be examined (Gaughan, 2010).

The selection process can be done in a numerical/statistical manner like assigning weight to different factors and calculating the results. In this way one can rate different options available and the results can be later co-related with the value determination process. For the purpose of arriving at a basis to determine the impact of different factors a mechanism

aligned with the motive of the transaction should be defined (Magenheim and Mueller, 1988; Agarwal et al., 1992; Healy et al., 1992).

1.3.2 Valuation of Target Firm

The basis to be adopted for valuation should be aligned with the merger objective that how it is going to be achieved in post merger situation, after taking into account planned restructuring and reorganization of issues pertaining to operations, marketing, human resource, technology etc. (Damodaran and Aswath, 1996). Other than the tangible factors, intangible issues like goodwill, technology patents etc. should also be accounted for while planning the valuation phase. Valuation undertaken without giving due consideration to such factors can lead to unrealistic consideration, causing unviable M&A transactions (Arshanapalli et al., 2006).

The valuation can be carried out by adopting approaches and methods, depending upon the circumstances of the target firm and mode of the Merger (AICPA, 2007; Mard et al., 2007). Business valuation does not suffer from the lack of methods, rather, from the coexistence of a large number of methods, among which practitioners may feel lost. Different methods, however, can overlap to better estimate the price of a firm and minimize the risk of error. But one must acknowledge that *"there is no unique value of a company."* (Sabina and Irina 2010, p.878)

There are over a dozen methods of valuation, structured differently by different authors; Ceddaha (2005) has grouped them into the following three approaches:

- a) Income Based Approach
- b) Asset Based Approach
- c) Market Based Approach

Each of these approaches has advantages and drawbacks, which are considered when assessing their suitability to the transaction and the target firm.

a) Income Based Approach

It determines the fair value of a business by multiplying the profits or cash flows generated by the target firm with a discount or capitalization rate to convert them into present value. There are several different methods falling under this approach like:

- i) capitalization of earnings or cash flows
- ii) discounted future cash flows ("DCF")
- iii) excess earning-hybrid of asset and income approaches

The discount rate and capitalization rate are closely related to each other, but distinguishable. The capitalization rate is applied on historical business data for a single period of time. On the other hand, discount rate is applied only to discounted cash flow (DCF) valuations, which are based on projected figures of a merged firm. It comprises of two elements: (1) the risk-free rate; that an investor would expect from a secure, practically risk-free investment, such as a government bond; plus (2) a risk premium; that compensates for the relative level of risk associated with a particular investment in excess of the risk-free rate. The methods of determining the appropriate discount rates are:

- i) Build-Up Method
- ii) Capital Asset Pricing Model-originated from the Nobel Prize winning studies of Harry Markowitz, James Tobin and William Sharpe
- iii) Weighted Average Cost of Capital

Over the years, researchers have observed increased use of models based on discounted cash flows while taking various decisions (AICPA, 2007), and this approach is considered as queen of the financial evaluation. Substantial usage of this method has been evidenced by Trahan and Gitman (1995); Bruner et al. (1998); Graham and Campbell (2001). Mukherjee et al. (2004) found that almost 83% of buyers use discounted cash flows method to determine the value of the target firm. This dynamic approach aims to determine the capacity of a business to create future value by considering cash flows expected to be generated (Meier and Schier, 2009). Iselin (2007) considers that the philosophy behind this approach is based on the idea that the purchaser does not buy the historical flows of the firm (the accumulated wealth), but the future cash flows (or the future wealth).

b) Asset Based Approach

The theory on the basis of which this approach has been developed can be defined as “*value of asset based analysis; a business is equal to the sum of its parts*” (Sabina and Irina 2010, p.879). It stems from the principle of substitution: no rational investor will pay more for the business assets than the cost of procuring assets of similar economic utility, and adjusting the values to fair market value wherever possible. Objective of using this method is to estimate the accumulated wealth and not to determine the potential future value (Meier and Schier, 2009).

The net asset value method assists in calculating the net worth of the firm namely the difference between the value of the assets adjusted for non-values and the amount of debt of a firm (Meier and Schier, 2009). This approach is only a first approximation, very concise and promptly, of the value of a firm (Chapelle, 2002), which does not reflect its

true value (Iselin, 2007). It is, generally, applied to businesses not likely to continue and does not take into account intangible assets like goodwill. Where, for on-going businesses Income Based Approach methods are considered as they determine the value of the tangible as well as intangible assets. The difference in the value of businesses determined under both these methods, normally, leads to the worth of intangible assets.

Adjusted net book value method is also considered relevant when a firm's earnings or cash flows are nominal, negative or worth less than its assets; or when net book value is standard in the industry in which the firm operates. Its usage can also be justified, especially, when the target firm owns non-operating assets that can generate considerable gains (Meier and Schier, 2009). Because of its conservative base, it is generally applied as a "sanity check" while using other methods of valuation.

c) Market Based Approach

The market approach to business valuation is related to the supply and demand forces that drive the price of business assets to certain equilibrium. Fair market value is best determined with reference to open market transactions involving similar businesses. The methods under this approach are:

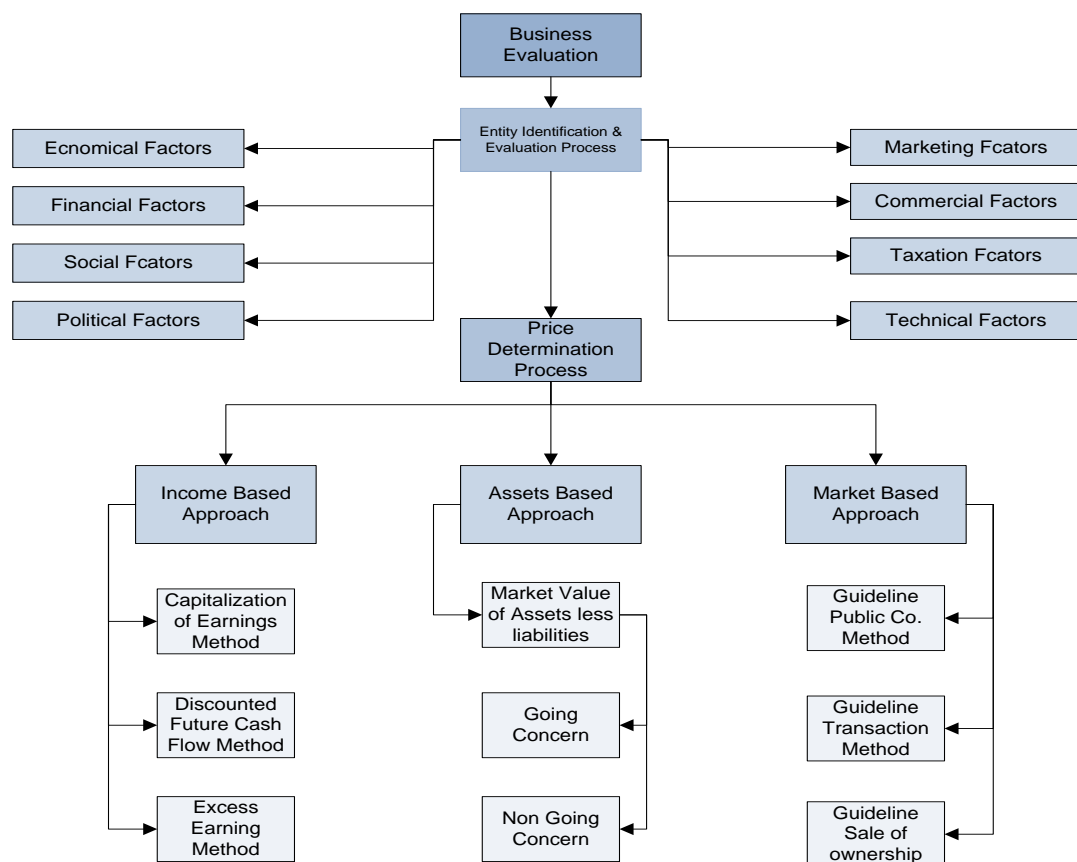
- i) Guideline Public Company - this method entails a comparison of the subject firm with publicly-traded companies, by generally using published data of the public companies' stock price and earnings, sales, or revenues, expressed as a fraction known as a "multiple".
- ii) Guideline transactions - under this method similar transactions recently undertaken by the same industry is taken as base.
- iii) Guideline (historical) sales of ownership interests in the subject firm - transaction that took place in the same firm in the past is considered as base by adjusting and updating the information/data used for the purpose.

This approach, also known as the multiple valuation method or the method of comparables, is amongst the approaches mostly used for the valuation of unlisted companies (AICPA, 2007). For example, Asquith et al. (2005) reported that 99% of analysts use multiple methods for evaluating companies and Roosenboom (2007) finds that underwriters typically use this method when valuing initial public offerings (IPOs). It is calculated by applying to the historical or anticipated figures of the target firm, the calculated multiples derived from sample of comparable listed companies or the "peer group" (Ceddaha, 2005). The method proceeds in three stages: defining a sample of comparable companies; calculating the multiples; and applying the multiples to the target firm (AICPA, 2007).

The valuation methods are only a measurement tool that should be adopted according to circumstances. By using different methods one obtains a value but not a price (AICPA, 2007). These methods are useful because they provide a starting point and a range of reasonable values based on reasonable assumptions and actual events (Sherman and Hart, 2006). The value derived from a calculation and can be adjusted while the price is the result of a negotiation between the parties and involves factors like the supply and demand, market share, synergies for the buyer, liquidity needs of the seller etc. More importantly, the price of a firm also depends on the real determinants objectives of the stakeholders (Salustro, 2009). *“There is no single value or “fair” value, the value taken into account in a merger to determine exchange ratio of the shares is also the result of calculations, estimations, but mainly the result of negotiations”* (Sabina and Irina 2010, p. 883).

Based upon different studies, as referred in the above discussion, business valuation process can be graphically presented in the manner given in figure 4:

Figure 4: Business Evaluation Process



(Source based on several studies: Gaughan, 2010; AICPA, 2007; Sabina, Irina 2010; Meier and Schier, 2009)

However, to develop better understanding of business evaluation and its process, Evaluation Theory defined by different scholars like Scriven (1991) and Chelimsky (1997) can be inferred, suggesting that the evaluation process has made some major strides over the past 10-15 years. Its scope has been dramatically enlarged which has increased its policy relevance and changed the timing of its interventions (Jackson, 2001).

According to Scriven (1991) evaluation is the process of determining the merit, worth and value of things, and valuations are the products of that process. He sees evaluation as a transdiscipline, and combines two processes: compiling, analyzing, and simplifying or standardizing data is only the first step; and the second step involves the imposition of values or standards.

Where, Chelimsky (1997) describes three broad purposes for evaluation: accountability function - judges the impact of a program, its efficiency, and effectiveness; development functions - deals with the operation of a program and provides suggestions for improvement; and knowledge function - contributes to the generation of knowledge about social (or economic) phenomena (Jackson, 2001).

This extends the evaluation process to include both ex ante and ex post, and ex post studies, almost always, themselves have some component that looks explicitly at future applications of past experience (Jackson, 2001). With this one can expect useful information from evaluation for four kinds of decisions: those needed for policy development, for program development, for policy or program monitoring, and for policy and program evaluation (Chelimsky, 1997). In case of Policy and Program Monitoring the evaluation role essentially involves usage of proper targeted data systems to examine two things: first, the status of the problem addressed by the policy and second, the status of the program itself. With such data, evaluators can track performance measures, monitor the development or abatement of a problem, recommend whether to modify a program addressing that problem, or more typically, examine indicators of program targeting cost growth and a variety of other factors (Chelimsky, 1997).

Evaluation, hence, is the process of determining the merit, worth and value of things, and is the products of that process (Scriven, 1991). Further, it not only covers quantitative issues but also take care of qualitative matters (Chelimsky, 1997). These approaches substantiate the point of view that the evaluation starts from defining standards, implementing those standards and measuring their impact.

Term Business Evaluation, in this context, should not only refer to the process of determining worth of a business - Price Determination Process - rather logically it should encompass: defining standards for the suitability of the transaction to both the parties as per their defined objectives; assessing the worth of the business; and measuring the performance on the basis of defined

standards. This process should cover, not only, objective (tangible) but also subjective (intangible) factors (Bryer and Malvin, 2002; Mard et al., 2007; Aybar and Ficici, 2009; Chase et al., 1997).

Therefore, another important aspect of M&A transactions, which cannot be ignored, when we talk about the outcome of such transactions, is the measurement of their performance after the transaction has taken place. The criteria for the assessment may vary from one transaction to another by judging it with reference to the objective (Cartwright and Cooper, 1993; Kitching, 1967) forming the basis for the selection of a firm and its valuation, which could either be based on tangible or intangible factors while focusing on the financial viability or profitability, and in some cases undertaken to achieve non financial – cultural, social or political – issues (Buono e al., 1985; Marks and Mirvis, 1992, 2000). According to Kiessling et al., (2008) performance assessment can be made on tangible as well as intangible factors represented by financial plus nonfinancial outcomes, and a comparative method is more effective in extracting responses.

Right and timely assessment by the management could lead to stabilize the impact of the transactions by taking steps to rectify the misjudgments of the factors involved in the first earlier phases of business evaluation. Hence, the outcome of the transactions should also, along with the identification and valuation process, be analyzed with reference to the post transaction monitoring process followed by the management of acquiring firm (Kaplan and Weisbach, 1992).

Performance assessment relationship with business evaluation, in the context of M&A transactions, can be judged from the business evaluation scope that broadly segregates it into two segments: first part pertaining to short listing of firms is carried out at the very initial stage thereafter the next phase of valuation of selected firm is adopted (Chase et al., 1997); and final step, perhaps the most challenging one, is to make the acquisition work after the deal is complete (Kaplan and Weisbach, 1992).

To sum up, there are four basic steps, in acquiring a target firm: first is the development of a rationale and a strategy for doing acquisitions, and what understanding of this strategy requires in terms of resources; second is the choice of a target for the acquisition and the valuation of the target firm, with premiums for the value of control and any synergy; third is the determination of how much to pay on the acquisition, how best to raise funds to do it, and whether to use stock or cash; and final step in the acquisition, and perhaps the most critical one, is to make the acquisition work, by achieving the objectives defined for the transaction at initial stage, after the deal is complete (Kaplan and Weisbach, 1992).

Hence, this study is focused on processes related to all the components of business evaluation including performance assessment, to analyze the role and impact on the outcome of M&A transactions.

1.4 Significance of the Study

Considering the role played by M&A transactions, as discussed earlier, on national as well as international level, conclusion drawn by the some of the research studies is quite alarming. Such studies have investigated that: in general the finance literature is of the view that M&As increase the value of target firms, while the outcome is less clear for acquirers (Bertrand and Betschinger, 2012); growth in M&As activity around the world stand in sharp contrast with their high rate of failure (Marks and Mirvis, 2001; Schweiger and Lippert, 2005); merger failure rate is 2/3 of the merger transactions (Canina, 2009); acquisitions are often found to erode acquiring firm value (Chatterjee, 1992; Datta et al., 1992; Moeller et al., 2003; Seth et al., 2002); M&A's studies showed value destruction for acquiring shareholders in 80% of deals (The Economist, 2005); and so on.

Research carried out over the period of time has analyzed the reasons for the failure of M&As or impact on the shareholders' value in the context of varied management, organizational, social, political, and geographical related issues. But business evaluation process, adopted by the acquiring firms while undertaking such transactions, as a reason, was not thoroughly investigated, and required detailed study. To emphasize the significance of business evaluation while carrying out M&A transactions, Chase et al., (1997) have investigated that well planned and executed mergers increase the value of the firm and the value of the firm to society, well-planned means proper assessment covering choice of a target firm and analysis that how possible benefits (tangible and intangible) can be derived.

Scope of this research is, accordingly, related to addressing the question of business evaluation process covering selection of target firm (based on well defined merger objective), basis adopted for the evaluation of selected firm (covering, all related subjective and objective factors), and how the performance assessment mechanism has been defined to ensure that merger objectives have been achieved.

The research has been designed on case study basis covering, primarily, semi structured interviews of key persons involved in the process of evaluation of target firm for M&A transactions. Additionally, information publically available as well as documents and record pertaining to the events surrounding the transactions, maintained by the acquiring firms, where available, were also examined. With the objective to strengthen the base of case studies, research

area and research methodology, devised, was reviewed and refined by conducting Pilot Case studies.

This study is related to cases selected from Technology and Telecommunication, one of the sectors that contribute majorly to the merger and acquisition transactions world over, according to McKinsey & Company's (reknowned consulting firm) in the past decade these mergers in aggregate were valued well over \$1.5 trillion. Selection of the sector also aligns well with the essence of this research as M&As results in the telecommunications sector, generally, has not been positive. Ferguson (2004), based on US telecommunications industry, analyzed such companies' mergers reduced overall productivity growth, worsened recession, and impeded progress. Trillas, (2002) studied the acquisitions of the twelve largest telecom companies in Europe and found that acquisitions were followed with an insignificant impact on shareholder value on bidding firms, concluding that such acquisitions were undertaken for empire-building purposes. Further, the organizational processes and their outcome might differ substantially from one industry to another, study, hence, has been focused on a single industry (Alegre et al., 2012).

Thorough analysis of the case studies has revealed that business evaluation process have a deep impact on the outcome of the M&A transactions. Sounder, controlled and inter linked processes can ensure better chances of success of such transactions, compared to the cases where emphasis was placed on preferences based either on the individuals running the affairs of a firm or driven by the excitement to overtake the competitors in the market.

Further, the boundaries of the business evaluation process, for the sake of M&A transactions, need to be elaborated to make performance assessment as its integral part. This would help in shaping the outcome of the transactions by taking remedial steps, at the time of implementation of the transaction, on the issues which were not perceived at the time of selection of the firm or while undertaking its valuation. The strength of the processes pertaining to the selection of firm and valuation can, hence, minimize the gap between the perceived/estimated results and the actual outcome, where the performance assessment can overcome the deficiencies of the earlier two stages through the robustness of its process.

Outcome of the study would help not only the investors and sponsors but also the management to place greater reliance on the strength, professionalism, and independence of the business evaluation process. It will guide in developing better understanding of its scope particularly with reference to the performance assessment. More importantly, this would also bring clarity in understanding the relationship and behavior between different components and related factors of business evaluation.

2 Research Area and Research Questions

Over the recent years, the lack of ‘theories’ in management research has been lamented, and calls to develop robust and relevant theories of management have been made, similar state of affairs is mirrored in research on M&A (Ghoshal, 2005; Suddaby et al., 2011). This argument has been raised in conference panels featuring prominent M&A scholars in European Academy of Management 2011 and Strategic Management Society Special Conference Finland 2010 (Cartwright et al., 2012). M&A, though, dominate the corporate world transactions, but the research on M&A started to flourish since the 1960s (Faulkner et al., 2012; Haleblan et al., 2009). The field remained criticized for insufficient theories of the phenomenon; the encounter between two organizations following an ownership change, during a merger or an acquisition (Greenwood et al., 1994; Schweiger and Goulet, 2000).

Trautwein (1990) concludes that research on M&A should move away from efficiency theories towards more process related theories. Sinatra and Dubini (1994) claim that, owing to the methodological weakness of existing studies a theory of M&A is still lacking. Greenwood et al. (1994) agree that M&A research is more focused on specific ‘themes’ than theory development. Schweiger and Goulet (2000) have argued the need for a comprehensive theory on M&A. The subject also remained under increasing criticism, either with regard to what M&A performance is and how it is measured (Meglio and Risberg, 2011; Very, 2011; Zollo and Meier, 2008), or how M&A perform (King et al., 2004), or the antecedents of M&A performance (Haleblan et al., 2009). A deeper understanding of M&A integration dynamics has also been called for by Schweiger and Goulet, (2000); von Krogh et al. (1994). In particular, it seems that there is a lack of understanding of how integration-related micro-actions come to impact upon M&A outcomes (Haleblan et al., 2009).

The subject is critical, particularly, with reference to the findings of some of the studies, as referred below:

- i) Overall, the empirical evidence on performance effects for domestic and cross-border acquirers is mixed. The Finance literature, generally, concludes that M&As increase the value of target firms, while the outcome is less clear for acquirers (Bertrand and Betschinger, 2012).
- ii) Growth in M&As activity around the world, the volume of capital involved, and the pervasiveness of M&A stand in sharp contrast with their high rate of failure (Marks and Mirvis, 2001; Schweiger and Lippert, 2005).
- iii) Merger failure rate is 2/3 of the merger transactions (Canina, 2009).

- iv) Acquisitions do not enhance acquiring firm value, as measured by either short-term (Asquith, 1983; Dodd, 1980; Jarrell and Poulsen, 1989; Malatesta, 1983) or long-term performance measures (Agarwal et al., 1992; Asquith, 1983; Loderer and Martin, 1992).
- v) Acquisitions are often found to erode acquiring firm value (Chatterjee, 1992; Datta et al., 1992; King et al., 2004; Moeller et al., 2003; Seth et al., 2002)
- vi) Mergers produce highly volatile market returns (Langetieg et al., 1980; Pablo et al., 1996)
- vii) M&A's studies showed value destruction for acquiring shareholders in 80% of deals (The Economist, 2005)
- viii) Jensen and Ruback (1983) found slightly positive gains to acquirer shareholders. However, subsequent research has found negative results for the acquirers over various measurement periods. Around the announcement date, a large volume of studies have concluded that average return to acquirer shareholders is negative and significant majority of deals destroy acquiring shareholders' value (Copeland et al., 2000; Sirower, 1997; Varaiya and Ferris, 1987; You et al., 1986). Similarly, research examining acquiring shareholders' return on long-term basis after M&As (up to 5 years post announcement) found significant negative performance (Agarwal et al., 1992; Magenheimer and Mueller, 1988). As Ruback (1988) stated, "*Reluctantly, I think we have to accept this result—significant negative returns over the two years following a merger—is a fact*" (p. 142).
- ix) Research on actual post merger firm-level profitability reveals disappointing performance (Herman and Lowenstein, 1988; Porter, 1987; Ravenscraft, 1987; Ravenscraft and Scherer, 1989; Sirower and O'Byrne, 1998). Indeed, Porter (1987) concluded that "*the corporate strategies of most companies have dissipated instead of created shareholder value*" (p.43).
- x) M&As, though, create value at the macroeconomic level (the combined shareholder gains for acquirers and sellers net out to a positive number), the acquiring firms, and those initiating deals and committing their capital, routinely fail to benefit their shareholders (Copeland et al., 2000; Jensen, 1993; Ravenscraft and Scherer, 1987; Sirower, 1997; Varaiya and Ferris, 1987).

To investigate reasons behind the above findings reference can be drawn to different studies carried out like Leo'n-Darder et al. (2011) have underlined that in international business, environmental and behavioral uncertainties are considered as the core attributes. Environmental uncertainty means inability of an organization to predict future events, caused by volatile nature of the economic and political conditions of the host country as well as lack of knowledge of the

local customs and culture (Zhao et al., 2004). Where, behavioral uncertainty relates to the risk posed by the opportunistic conduct of a potential partner at the transaction level, affecting the efficient management of the relationship. The presence of intangible assets, such as marketing intensity through branding and advertising, has frequently been used as an indicator of this type of uncertainty (Miller, 1993).

Villar et al. (2012), in this regard, have suggested that knowledge regarding international markets evolves in a very dynamic way, so it becomes more important to take on the mechanisms that allow the firm to manage these important resources; therefore, the ability to learn and apply knowledge to foreign markets is crucial for the success of international ventures including M&As.

Particularly with reference to the knowledge transfer in emerging economies, in the context of rapid globalization in the form of FDI and international trade, Filatotchev et al. (2011) have emphasized on growing mobility of scientists and entrepreneurs as a new channel for international knowledge transfer, which may not only attract returnee entrepreneurs but also stimulate a spillover effect from returnees to local firms. This mechanism according to them can overcome the uncertainty in the legal and economic environment that FDI and international trade may encounter. The government policies should, thus, be aimed at attracting returnees through incentives (Filatotchev et al., 2011).

Pla-Barber and Camps, (2012) have emphasized on the Springboarding concept for the success of business internationalization - including M&As. By Internationalization they meant complex environment where investing companies have to deal with the issues for which they don't have knowledge. They investigated that such knowledge related to potential customers, competitors and market conditions in a particular country can be acquired through the firm's direct experience in the target country, through their subsidiaries in the region having direct business connections with the country where target business exists.

Similarly, to identify the reasons for the failure of M&As or their impact on value to shareholders, research also been carried out over the period of time with reference to issues pertaining to Management, Organizational, Cultural, Human Resource, Social, Political, Geographical factors (Bertrand and Betschinger, 2012; Weber and Rachman-Moore, 2012; Bugeja, 2011; Colman and Lunnan, 2011; Williams and Liao, 2008; Hannan and Steven, 2009; Deutsch et al., 2007; Beaulieu et al., 2005; Lübberts, 2008; Chakrabarti et al., 2008; Gande et al., 2009; Dikova et al., 2009).

Where, business evaluation related processes which would ensure efficient handling of the causes of M&A failures, researched so far. As a reason, has not been thoroughly investigated, and required detailed study (Haleblian et al., 2009). This has also been substantiated on the basis of

conclusion drawn through Meta-analysis that none of the strategic and financial variables studied are significant in explaining variance in post-acquisition performance (King et al., 2004). Emphasizing the significance of business evaluation in the M&A transactions Chase et al. (1997) have also been argued that well-evaluated mergers enhance the value of the firm and the value of the firm to society, where improperly planned mergers or undesired takeovers not only harm the acquiring firm but also the society due to external costs not borne by the acquiring firm. This also underlines the role of persons undertaking business evaluation that they must be socially responsible as well, and should consider the effects of the merger/acquisition on all stakeholders.

Investigating the concept of evaluation of targeted business Gande et al. (2009) have been analyzed that like any business proposition, successful transactions should show a reasonable proportion between returns/gains likely to incur and investment amount, mergers can be termed to be workable or successful when the price to be paid by acquiring business to the target firm is based on realistic amount that is in viable proportion to the returns (tangible and intangible) one can expect by entering into such an arrangement.

Scholars stress that many cross-borders M&As' failures lead to either closure or divestiture (Child et al., 2001; Kaplan and Weisbach, 1992; Li and Guisinger, 1991; Porter, 1987). Significant part of literature explains failures largely as the result of paying excessive premiums or unavoidable problems associated with post-acquisition integration (Child et al., 2001; Hitt et al., 2001a, b). While Hayward (2002) suggests that firms can learn from small mistakes defined by the size of premium paid but virtually no research has been done in the area of learning from relatively large failures that produced divestitures or liquidation of cross-border M&As. The reason of this deficit in the research might be a consequence of these large failures (Shimizu et al., 2004).

Similarly, lack of clarity regarding the elements of merger success and implementation, along with the measurement problems, led to a never ending debate as to whether mergers are generally desirable or of dubious value. Overpayment had been reported as the overwhelming culprit of merger failure, while less quantifiable causes such as strategy and merger execution have been downplayed. Without any focus or clarity, the discussions had led to uninformative case studies (Epstein, 2005).

Broad agreement, however, exists that many acquisitions fail to meet their objectives. One way of explaining the result is that several mechanisms in the M&A process may affect performance (Weber and Rachman-Moore, 2012). Some studies have suggested integration process may lead to new insights on M&A performance (Haspeslagh and Jemison, 1991; Jemison and Sitkin, 1986). The achievable performance potential of a merger consists of the pre-merger strategic, financial, and contextual (e.g. national culture) conditions. The management of the post-merger integration process is likely to determine the extent to which this potential is realized (Weber and Rachman-

Moore, 2011). Haspeslagh and Jemison (1991) maintained that all value creation takes place after the acquisition; hence the critical importance of the quality of the post-merger integration process.

Considering the above findings, the research area is related to the performance of M&As with reference to the business evaluation undertaken by acquiring firm, that how process of selection of target firm, its valuation as well as post transactions performance monitoring, can impact their outcome.

Business evaluation, though normally conceived as calculations exercise based on method suitable to the cases, involves number of intangible factors (Aybar and Ficici, 2009; Astrachan and Peter, 2008; Chakrabarti et al., 2008; Reuer, et al., 2003; Beaulieu et al., 2005) as well as restructuring/reorganization issues (Canina et al., 2010; James, 2005; Mellen and Sullivan, 2007; Gaughan, 2010). In most of the cases it is not being carried out in a way to give reliable results (Reuer et al., 2003), varying from case to case basis due to the fact that either the sphere of valuation process is not clearly defined or is not in accordance with the merger objectives or factors involved are not given required weight. The process should, however, start from the stage of selection of a business (Basu et al., 2008).

Performance assessment, evaluation of results actually happened, on the other hand is also of significance to judge the outcome of merger transactions. Different methods have been studied and analyzed (Heywood and McGinty, 2007; Sung and Gort, 2006; Click, 2005), but measurement despite the method being deployed, and reckoning the requirement of each case, should be aligned with the basis adopted for the evaluation of firm (Faulkner et al., 2002). Therefore, any fixed formula cannot be applied across the board for all merger cases.

The above discussion can lead to the following research question:

What is the role played by the business evaluation process in the outcome of a merger or an acquisition?

Resultantly, the above question unfolds the following sub-questions:

- a) What are the factors that contribute towards (or influence) selection of a firm for merger or acquisition?**
- b) How do businesses value the firm that they want to merge or acquire?**
- c) How merger or acquisition performance can be better assessed by integrating pre and post merger factors?**

The discussion with reference to the areas requiring research is detailed below:

2.1 What are the factors that contribute towards (or influence) selection of firm for merger or acquisition?

Selection of firm is the foundation of M&A transactions, and should be thoroughly looked into to make the transactions a success. In other words, it defines the direction for the fate of merger transaction (Cornett et al., 2006; Branch and Yang, 2003; Gande et al., 2009; Datta, 2002). Motive or objective being first step for entering into merger transactions, as well as for the selection of target firm, may not necessarily be earning profits there can be social, cultural, competitive or strategic motives focusing on either value creation for shareholders or for stakeholders, in tangible or intangible form. There has been a debate about the motives of M&A transactions over the past three decades (Mueller and Sirower, 1998), including economic efficiency (Jensen, 1993), managerial self-interest (Marris, 1964; Mueller, 1969, 1989), and a market for corporate control (Jensen and Ruback, 1983; Manne, 1965).

The process of selection and the related modalities of the transactions require nod of the concerned board or committee of the acquiring firm. The decision, therefore, can vary with the composition of a board; the segment to which they represent, their orientation, their professional background, level/nature of their engagement with the acquiring firm, and how they perceive the future of their business (Beckman and Haunschild, 2002). The board members are normally represented by the shareholders and their view point, unless and until some non representative directors - outside experts or employees - have been engaged in the board, is generally profit oriented (Deutsch et al., 2007). Likewise, different type of shareholders e.g. general public, institutions, employees etc. have varied view on the decisions relating to such transactions, the more the shareholding, more the influence and greater the value to the transaction (Chari and Chang, 2009). Similarly, Chetty and Hamilton (1993) underlined that managerial commitment highly determines the pro-activeness to seek for opportunities in the market. Especially in SMEs, where decisions on international strategy usually depend upon a person or a smaller management team (Boter and Holmquist, 1996; Fernández and Nieto, 2005).

Transaction can be either merger of one firm into another by forming a new firm in place of both the (existing) firms or by acquisition of shareholding by another firm. The evaluation mechanism, though varies to some extent in each case, should be initiated through the process of selection of firm to meet the desired objectives (Branch and Yang, 2006; Sherman and Hart, 2006). The mode of settlement of consideration can be in the form of cash, stocks, stocks swap (Faccio and Masulis, 2005) or on deferred payment (Reuer et al., 2003) either way has its own impact for selection and evaluation, accordingly, should be considered as a part and parcel of the selection basis. The settlement of a transaction by way of cash reflects more seriousness of the acquiring

firm as well as more realistic consideration, compared to settlement by way of issuance or swap of shares (Branch and Yang, 2003).

Researchers have investigated a positive relationship between poor post-acquisition returns with poor target selection, acquirers' willingness to pay too much, and long and costly integration processes (Gilson and Bernard, 1986; Haspeslagh and Jemison, 1991). Studies pertaining to acquisition literature have also examined variables such as relatedness between the acquirer and the target, method of payment, acquisition premiums and acquirers' acquisition experience as factors that correlate with acquisition performance. Some studies have also emphasized on the role of experience, namely the effect of acquirers' acquisition experience on acquisition performance (Fowler and Schmidt, 1989; Haleblian and Finkelstein, 1999; Hayward, 2002; Lubatkin, 1983; Singh and Zollo, 1998).

Similarly, it has also been researched that an acquirer's previous alliance with the target can improve the acquirer's information about the target's resources, provide experience at resource integration with the target, and reduce the risks associated with alliances. An acquirer's alliance with a prospective target can be an advantage-producing resource because target-specific information and experience can benefit selection, valuation and integration thereby improving acquisition performance. Another interesting observation is that acquisition experience by itself is not restricted to acquirer only. The target acquisition experience also has the benefit particularly in the context of their familiarity with being on the managerial side of integration. This would allow acquirers to reap the benefits of the acquisition sooner (Porrini, 2004).

2.2 How do businesses value the firm that they want to merge or acquire?

Valuation process is another area that requires thorough analysis to evaluate the performance of M&A transactions (Doukas and Kan, 2004). Literature on the subject is more focused on the valuation of the target firm's business by taking into account its past performance and the developments likely to take place in the future period. However, emphasis is desired on likely post transaction impact on target as well as acquiring restructured firms, by following the path of transaction's objective defined at the identification stage. The factors need be taken into account for valuation should include: business operation; technology; market conditions; competitors; restructuring of business model, processes and activities; production facilities; human resource etc.: James, 2005; Mellen and Sullivan, 2007; Gaughan, 2010), as well as subjective (intangibles) factors/issues (Aybar and Ficici, 2009; Astrachan and Peter, 2008; Chakrabarti et al., 2008).

Process of valuation needs to be rationalized on the basis of objective of the transaction and restructuring of different activities to be undertaken in the post acquisition scenario by target and the acquirer firms, impacting in aggregate the future viability of the merged organizations (Faulkner et al., 2002; Gaughan, 2010). Standalone valuation of the acquired firm, ignoring the likely effect on the acquiring firm, would lead to unrealistic valuation and ultimately negative outcome of the transaction. This can be corroborated by quoting an acquisition transaction announced by Sergio Marchionne, the boss of both the Fiat Group and Chrysler on April 21st, 2010 by planning to separate Fiat's other businesses from Fiat Auto as a precursor to create a combined firm with Chrysler. Mr. Marchionne believed that spinning off Fiat Industrial, which would include CNH, a producer of farming and construction equipment and Iveco, a truck maker, would give those businesses, which accounted for 35% of group sales, greater visibility. Meanwhile Fiat Auto, left in the holding firm, would be free to gain scale from mergers or partnerships with other car firms and to raise capital (The Economist, 2010a). All these factors, in combination, demanded weightage while offer was made by Italian car maker to reach to a justifiable price.

It has been observed that valuation process, in most of the cases, is overshadowed by the desire or keenness of the management - either based on the market trend or by following what the competitors are doing or look after the beneficial interest of those involved in the process/decision making - to go or not to go for the transaction. This, often, leads to overruling the valuations carried out by the professionals or by undertaking the exercise in-house without any thorough professional input (Aruğaslan et al., 2004). A real world example of this can be a recent bid by Telefónica, a Spanish firm, to purchase shares of Vivo, a Brazilian telecom, in an attempt to take over the control of the firm, jointly owned with Portugal Telecom:

“Just before the shareholder meeting Telefónica had offered a crazily high, revised price of €7.15 billion (\$8.77 billion) for Portugal Telecom's share of Vivo..... . The unexpectedly strong shareholder support for Telefónica's bid suggests that the Spanish firm is offering far too much. Its latest offer, 25% higher than its initial bid, represents almost the whole market value of Portugal Telecom.” (The Economist, 2010d p.55)

M&As may be done out of desperation of executives as they feel under pressure if their profits disappoint. *“An acquisition shows shareholders that something is being done, just as a beleaguered football manager may buy a new striker to appease disgruntled fans. Executives may also feel a merger with a friendly rival (with juicy severance packages for departing managers) is preferable to a hostile takeover. That fear seems to have spurred Office Depot and Office Max, two purveyors of paper clips, to announce a merger on February 20th, 2013”.* (Buttonwood, 2013 p.64)

Further, in some cases, valuations are rationalized by factors prevailing in a given situation instead of some solid long-term economical or financial benefits, this was evident from buyouts by private equity firms as quoted in The Economist by Buttonwood, (2010 p.60) “...*the flood of money, like the supposedly dumb small investor, the pension funds, ended up chasing past performance, into private equity caused more competition in the world of buy-outs, with the result that deals were done at higher valuations. Those higher valuations have duly led to lower returns*”

Another factor leading to irrational valuation could be the cases when funds were raised by acquiring firms from the shareholders. The inundated availability of funds stymied acquiring firms’ management from making rationale decisions and spending the money imprudently. “.....*the heads of big companies have a habit of spending shareholders’ money a bit too freely when they want to raise funds for an acquisition.*” (The Economist, 2010c p.52)

Taking stock of the transactions carried out in the past as to their valuations and results, according to The Economist (2005), a consensus has been emerged that M&As are a great way for investment banks to reap rich fees, and a sure way for ambitious managers to betray investors by trashing the value of their shares.

Aligning valuation basis with merger objectives defines the basis or criteria for the calculations. In some cases, apparently, financial viability is not the only consideration, and some non financial objectives may also be involved: the concept of “shareholder as well as stakeholder” may prevail, leading to deviation from standard financial calculation basis to some non financial factors. In such cases, hence, yardstick used performance of the transactions is other than relying upon stocks quoted value or by analysis the financials factors (Heywood and McGinty, 2007; Sung and Gort, 2006; Click, 2005; Ken, 2004; Reuer et al., 2003). Emphasis by the following researchers/prominent executives on the role of “Stakeholders” concept signifies the relevance of such non financial factors in determining rationale valuation for the businesses.

- i) Michael and Meckling (1976) emphasized on “Stakeholders Capitalism” instead of “Shareholders Capitalism” thereby underpinning value addition to stakeholders (customers, employees, suppliers, society at large and so forth) instead of shareholders.
- ii) Martin (2002) charts the rise of what he calls the “tragically flawed premise” that firms should focus on maximizing shareholder value, and argues that “it is time we abandoned it.” Martin argues that shareholder value should give way to “customer-driven capitalism” in which firms “should instead aim to maximize customer satisfaction”.

- iii) Paul Polman, the CEO of Unilever, recently said to the Financial Times, *“I do not work for the shareholder, to be honest; I work for the consumer, the customer...I’m not driven and I don’t drive this business model by driving shareholder value.”* (The Economist, 2010e p.57)
- iv) Vineet Nayar, the chief executive of HCL Technologies, Indian business-process outsourcing firm, in his book titled: *“Employees First, Customers Second”* took quite a different position from Martin and Langford (2002) by emphasizing more on employees than on customers.

Valuation, hence, is not simply a matter of calculation or applying a standard formula to all the cases. Rather, the process varies on case to case basis depending upon the merger objectives, likely restructuring of target and acquiring firms, tangible as well as intangible factors involved. Disassociation from either of the factor/components could lead unrealistic price for the transaction, which could result in merger failures, either from shareholders’ or from stakeholders’ perspective. This substantiates the conclusion drawn by researchers that mergers are mostly overvalued, as in the end it adds value to the shareholders of the target firm compared with the shareholders of acquiring firm who lose value or add no value (Kane, 2000; Lübbers, 2008; Williams and Liao, 2008).

The discussion, thus, can be summed up in the following words:

- a) **Valuation should be aligned with the merger objectives by considering the fact that how combined available resources can be restructured to ensure superior performance.**
- b) **Value of acquired firm must be determined by considering the impact of tangible and intangible factors on the merged firm.**

2.3 How merger or acquisition performance can be better assessed by integrating pre and post merger factors?

Research papers on the subject have over the period of time dealt with the basis, tools and techniques that could be used to assess the performance of the transactions. Such methods, mostly, consider the financial figures like sales, productivity, net profit, net worth, and return on assets etc. or market value of shares as basis (Heywood and McGinty, 2007; Yook, 2004; Sung and Gort, 2006; Click, 2005). In this study the focus is not on the methods of assessment, rather on defining underlying basis, forming foundation for the application of such methods, which unlike calculation methods varies from case to case depending upon the merger objectives outlining, where applicable: the expected restructuring to take place as a result of the transaction;

involvement of tangible as well as intangible factors; and focus on non-financial along with the financial factors.

Performance assessment has been aligned with the business evaluation in this study with the objective to analyze whether the post acquisition performance process followed by the management of the acquired firm is effective; adopting basis giving true picture of the results, to undertake corrective measures in a right direction. Ineffective or directionless efforts, on this account, may hamper the outcome of the transaction, even by making the first two steps - selection of firm and its valuation – counterproductive. To make this process a success the continuation of the approach adopted in the earlier two steps - objective of the transaction, as well as factors involved and mechanism defined for the implementation of the transaction - need to be ensured. Kaplan and Weisbach (1992) have concluded that the final step in the acquisition, and perhaps the most challenging one, is to make the acquisition work after the deal is complete.

Enough consideration was not given in the earlier studies to structure performance assessment as a part of business evaluation to assess the outcome of M&A transactions. Similarly, clarity did not exist to align this process with the basis adopted for the selection and valuation of the target firm. Absence of such relationship could result in incompatibility between the merger objectives and results so achieved, leading to untrue conclusion. Clarity on such continuation would also help in diluting from the outcome of the impact of the unrelated factors which should not have been considered for the purpose like subsequent concession given by the government or advantage gained on account of international trade etc., and vice versa. Performance evaluation, hence, refers to both Subjective as well as Objective performance, means dealing with not only the financial results but with non financial intangible factors impact as well; to assess whether the M&A has been successful in achieving the defined objectives or not?

3 Literature Review

Several scholars have highlighted the lack of knowledge and theoretical insights into the phenomenon of M&A (Haleblian et al., 2009; King et al., 2004; Meglio and Risberg, 2011; Stahl and Voigt, 2008; Very, 2011). M&A study poses multiply difficulties because not only one but two (or more) organizations are under consideration (Parkhe, 1993a), and the encounter of such organizations involves change and evolution over time. Further, the success of the M&As depends upon a number of factors ranging from finance to human resource management, covering: industry, country or corporate context-related contingencies (Faulkner et al., 2012). All this brings challenge underlying efforts to grasp the M&A phenomenon: how to approach and study a phenomenon as complex, paradoxical, multifaceted, thematical and dimensional as a merger or acquisition, let alone a host of them? Faced with this fundamental puzzle, there is a need to make choices as regards research methodological approaches and research designs (Cartwright et al., 2012). Due to these reasons, any research project has inherent weaknesses inbuilt into its design, and is able to capture only part of the M&A phenomena (Meglio and Risberg, 2011; Very, 2011; Zollo and Meier, 2008).

3.1 Theoretical Approaches

The subject of this research is related to the process involved in the evaluation of target firms by the acquiring firms in a multinational (or cross-border) environment. Such transactions, when thoroughly planned, premise on well defined objectives, which is the crux of the transactions as well as of different components of the research subject relating to the selection of firm, its valuation and the post transaction performance. Objective defining process, itself, is based upon detailed analysis/study carried out by the management of the acquiring firm. At times such objective is related to cost savings, whether in tangible or intangible form either directly or indirectly related to the combining of both the firms. While in other cases such transactions take place due to the reason that the acquiring firms do not possess the desired resources, required by them to make their businesses viable or even sustainable, and acquiring such resources on their own, because of cost or time factor, would be unviable proposition. Such transactions may also happen due to the reason that the firm being acquired is positioned in a way that its acquisition or merger with the acquirer firm would help the acquiring firm to explore the benefit of the strategic position the target firm enjoys. At times learning from the experiences of the target firm could also be the background of such transactions, acquiring such knowledge, otherwise, would be time taking and non beneficial.

Either or more of the above compulsions, in general, arises in most of the M&A transactions. Hence, literature review with reference to these theories would help in developing an understanding of the research questions and investigation into the related matters to reach to a conclusion.

The theoretical base for the literature review can be founded with reference to the discussion on the following different theories:

3.1.1 Resource-Based View (RBV)

This theory suggests that firms earn returns because they possess rare resources, which allow them to exploit opportunities and sustain competitive advantages in the competing environment (Beamish and Ariff, 2004). RBV seems appropriate for examining international strategic alliances and accordingly is very relevant to M&As which are structured with the objective of accessing valuable resources and competitive edge that they do not own.

In the resource-based view (RBV), the concept of strategy is considered as a “continuing search for rent” (Bowman, 1974: p 74) and the sustainability of rent. Where, rent is defined as return in excess of a resource owner’s alternative use costs. This is based on concept that resources, that are valuable, rare, inimitable, non-substitutable (VRIN), and involve organizational focus and support (VRIO), form the best basis for sustainable competitive advantage by being difficult for other organizations to copy or acquire (Barney, 1991, 2001; Priem and Butler, 2001; Wernerfelt, 1984). Based on the analysis of divergent types of resources in the literature, Das and Teng (1998) identify four major firm-specific resources which are critical in strategic alliances: financial, technological, physical and managerial resources. One form of such alliances is merger or acquisition of businesses of one firm of, or with, the other. The identification of such resources forms the basis of M&A transactions – defined as its objective, then determining the worth of the resource to compensate the others, and finally becomes the basis of assessment of the outcome.

Not all but only a handful of a firm's assets are strategic assets that contribute to its competitive advantage (Amit and Schoemaker, 1993; Kraaijenbrink et al., 2010). Examples of strategic resources include intellectual property rights, reputation, brand, and culture (Eisenhardt and Santos, 2002; Kaplan et al., 2001; Kogut, 2000; Nonaka, 1994). Such strategic assets involve explicit and tacit knowledge that is embedded in a firm's unique skills, knowledge, resources, and ways of working (Rumelt et al., 1994). These intangible resources are more likely to serve as sources for competitive advantage than

tangible resources (Brush et al., 2001; Eisenhardt and Martin, 2000; Ray et al., 2004), as knowledge-based resources are embedded in a firm's unique skills, knowledge, and ways of working (Foss, 1997; Molloy et al., 2011). New trends in RBV research suggest that research should not only identify the critical specific assets within a particular industry, but should also make efforts to obtain additional understanding of the whole competitive advantage creation process by considering the role of organizational capabilities (Alegre et al., 2012). These strategic assets hold vital significance when dealing with the M&A related issues, and command the basis for the business evaluation.

Resources and capabilities are considered valuable if they allow an organization to exploit opportunities and counter threats in the business environment. The rarity criterion is related to the number of competitors that possess valuable resource. Clearly, where a number of competitors possess the same valuable resource, then it is unlikely to be a source of competitive advantage. The imitability criterion is concerned with considering the ease with which competitors can replicate a valuable and rare resource possessed by an organization. In effect, this analysis is concerned with determining the sustainability of the competitive advantage in the resource. Finally, Barney (1991) argues that a firm must be organized to exploit its resources and capabilities. The organization criterion includes a number of elements including the reporting structure, management control systems and compensation policies.

Resources heterogeneity and immobility are the important contributions to the rarity, imitability and substitutability, being foundation of RBV (Barney, 2001). The resource value must be determined by following models which ensures competitive environment within which firm competes. This can be classified into: efforts to use Structure-Conduct-Performance (Brain, 1956); and by applying other theories from industrial model of perfect and imperfect competition (Conner, 1991). Where, in case of RBV SCP model has been followed (Barney, 2001). In this view further progress was made by Barney and Hansen (1994), McWilliams and Smart (1995), and Hunt (1997, 2000).

Talking from international business perspective, on which this research paper is focused, Peng (2001) asserts that the established research areas of multinational corporations (MNCs) and market entries can be considered to have been enriched by the RBV while three newer areas (strategic alliances, international entrepreneurship, and emerging market strategies) have been propelled by the RBV. The RBV has helped to specify the nature of resources required to overcome the liability of foreignness and provided a bridge to investigate the resources that provide the foundation for product and international diversification. The RBV literature has also shown that subsidiary capability

building facilitates more knowledge flows within the MNC. There is, however, a need to ensure that subsidiary managers are sufficiently incentivized to undertake capability development. Significant international experience by top manager represents firm-specific tacit knowledge that is difficult to imitate. The RBV contributes to foreign entry mode research by suggesting that such strategies are pulled by the resource capabilities of firms abroad as well as being pushed by the firm-specific advantages possessed by the MNC. With respect to emerging markets, RBV research has been important in suggesting that local firms are interested in using foreign alliances to acquire advantages over their domestic rivals, in emphasizing the importance of network ties as an intangible resource for entrepreneurial start-ups, and in understanding the changing benefits of unrelated diversification as economic institutions develop.

The evolution of the RBV literature in International Business (IB) can be tracked by using citation-based approach, by focusing on articles (Barney, 1991 and/or Wernerfelt, 1984) in leading two IB journals: Journal of International Business Studies (JIBS); and Strategic Management Journal (SMJ). The annual number of citations in these journals during 1991 through 2000, started with three in 1991 to a total of 22 citations in 2000, indicating healthy growth of their influence (Peng, 2001). JIBS was consistently ranked as the number one journal in IB (Dubois and Reeb, 2000; Phene and Guisinger, 1998) and Strategic Management Journal (SMJ), given the strategy roots of the RBV and the substantial IB work was one of the leading outlets for business research (Inkpen and Beamish, 1994; MacMillan, 1991; Tahai and Meyer, 1999).

RBV has provided a powerful theoretical perspective within which a substantial body of IB research is embedded. IB research historically has been criticized as being driven with scattered, unconnected topics, RBV helped to address this criticism, by presenting a unifying framework through which a large number of diverse research topics, ranging from the global strategies of MNCs to entrepreneurial activities of start-ups active in certain emerging economies, can be viewed as subscribing to the same set of underlying theoretical and competitive logic. In other words, the RBV has made IB research more theoretically rigorous (Peng, 2001).

Research based on RBV helps answer one of the top five fundamental questions in strategy identified by Rumelt et al. (1994, p. 564): *“What determines the international success and failure of firms?”* IB’s most significant contributions to the RBV lie in the identification of international knowledge and experience as a valuable, unique, and hard-to-imitate resource that differentiates the winners from the losers and mere survivors in global competition (Peng and York, 2001). This coincides with basis of this study;

analyzing the outcome of M&A transactions from the perspective of the processes that were deployed for the identification and valuation of target firm.

3.1.2 Transaction Cost Economics (TCE)

Developed by Williamson (1985, 1975) is traditionally concerned with the choice about whether the firm should perform business activities within its boundaries or in the marketplace (Norman, 2004). Many analyses of inter-firm collaboration, currently, have utilized key concepts drawn from this body of literature, especially how to structure relationships to try to mitigate the transaction costs under certain circumstances (Beamish and Ariff, 2004; Chen and Chen 2003). Transaction costs include the cost of negotiating, coordinating, monitoring and management costs associated with internally governing these exchanges (Beamish and Ariff, 2004; Klein et al. 1978; Poppo and Zenger 1998; Williamson., 1985).

It is based on two field of economics research: New Institutional Economics and New Economics of Organization (Moe 1984, 1990). These concepts have converted it from production function to governance structure. It examines any issue through the lens of cost economization, based on the perspective of firm and market organization (Williamson, 1998). The theory is bottom up construction where transaction is considered as a basic unit of analysis and is comparative in its mode of analysis (Williamson, 2005).

Three conditions that are proposed to lead to high transaction costs include: asset specificity, or the degree to which assets are dedicated to transacting with a particular economic partner; uncertainty, which represents the difficulty of predicting and observing cheating; and frequency, which influences whether there is sufficient volume to justify a fixed investment (David and Han 2004; Kogut 1988b; Williamson, 1975).

This theory identifies cost economization as a factor that could form a reason for entering into M&A transaction, and, thus basis for the business evaluation to assess their outcome. The rationale in case of foreign ventures has been analyzed by Hennart (1997). He was of the view that TCE could provide a powerful answer to related matters. According to him a firm may own a manufacturing capacity and a distribution system in its home country, but may be looking for foreign technology to manufacture products that will complete its product line. A foreign manufacturer may have already developed such products and may be willing to license his technology to the local firm. For this potentially fruitful cooperation to take place, both parties must be aware of each other and of the potential gains of cooperating, they must be able to quickly settle on a price for the technology, and they must be assured that the terms of the transaction will be enforced. Because of

bounded rationality and opportunism, organizing this potentially lucrative interdependence will incur information, bargaining, and enforcement costs, i.e. transaction costs (Hennart, 2010).

This theory, in case of M&A transactions, is also applicable to the selection of target firm along with determination of the structure of the transaction, as its variables have been recognized as major determinants of entry mode choice (Zhao et al. 2004). It can analyze which entry mode minimizes the transaction cost associated with the exploitation of an existing competitive advantage in a foreign market (León-Darder et al., 2011; Anderson and Gatignon, 1986; Buckley and Casson, 1976).

Transaction cost theory asserts that alliance performance is determined by the nature of the transactions to be performed, whereas resource-based theory highlights the establishment of a relationship for resource sharing between alliance partners (Chen and Chen, 2003).

3.1.3 Inter-organizational Theory

The theory is based upon premise that learning is more effective between alliance partners than through market mechanisms because it is a socially embedded process which requires individuals to share knowledge (Lincoln et al. 1998; Norman, 2004). This approach is relevant to the M&As transactions when investigated from the lens of issues concerned particularly with sharing knowledge. Also, it could lend support when investigating issues relating to restructuring of firms, emerging from acquisition or merger transactions.

The theory has been applied to understanding resources and capabilities (Kogut and Zander 1992), tacit knowledge (Subramaniam and Venkatraman, 2001), and the role of memory in organizations (Gold et al. 2001). In this explanation, alliances are viewed as the means by which firms learn or seek to retain their capabilities (Grant and Charles 2002). Many researchers have identified the sharing of knowledge (including technology, know-how and organizational capability) as the main objective in forming alliances (Grant 1996b; Grant and Charles 2004; Kogut and Zander et al., 1992; Nonaka et al., 1994). Defining objective, thus, leads to the rest of the process till the happening of the transaction as well as its performance measurement.

The reasons for forming alliances could be such as risk sharing, product rationalization, vertical linkage, and learning (Glaister and Buckley 1996; Grant and Charles, 2002; Kogut and Singh, 1988; Lorange and Roos 1992; Sheth and Parvatiyar 1992). The issue of the motives of forming a strategic alliance requires specific attention because the

choice of a firm might be different from other means to achieve the objectives (Buckley and Glaister 2002). It is critical to define the motives in the pre-alliance phases because measures of performance may vary depending on the different motives (Zeira et al. 1997).

Similarly, an in-depth search for a business for alliance or merger leads to successful performance in the future. Factors that need to be taken into consideration when selecting a firm could be: the relative firm size, the geographical location, the country of origin, the industry and the strategic position of the alliances. Strategic alliances are like marriages, since compatibility between the partners is critical. The decision to choose a partner will end up either as a shotgun wedding or a happy ending with a prince. However, the empirical research that investigates the impact of partner selection criteria on alliance performance remains limited (Glaister and Buckley 1999).

Since number of M&A of transaction, particularly in case of technology based firms, take place with objective of acquiring knowledge or access to trade mark or patents – meaning intangible assets, the relevance of this theory cannot be ignored while investigating the subject under study.

3.1.4 Strategic Management

It is driven by competitive positioning and the impact of such positioning on profitability where TCE is driven by cost-minimization considerations (Kogut and Singh, 1988). From the perspective of strategic character, alliances are viewed as a form of defensive investment to hedge against the strategic uncertainty (Vernon, 1983) or long-term effects of the agreement to access the product-market (Hagedoorn, 1993).

3.1.5 Relevance to Research Area

Reckoning the host of issues involved in the research area, the theories discussed above are relevant as such factors have to be considered -depending upon the fundamentals of each selected case - for the purpose of addressing the fundamentals of the research area. Whether these are dependent upon attaining competitive advantage over the others in the same business as stated in case of “Resource-Based View (RBV)” or are based on the objective of cost factors as per “Transaction Cost Economics” or relying upon maximization of profits as per “Strategic Management/ Organization Theory”.

Though, RBV theory is more strategically appropriate for the international strategic alliances. But, as highlighted by Barney (2001), the RBV historically has not provided sufficient focus on processes and implementation. Therefore, one of the most striking gaps in RBV is the lack of understanding of the processes surrounding cross-border M&As, the empirical challenges to isolate and measure process-related capabilities

underlying international M&As are indeed considerable (Barkema and Vermuelen, 1998; Child et al., 2001; Meyer and Estrin, 2001; Vermuelen and Barkema, 2001). This deficiency could be overcome by combining it with Transaction Cost Economics and other theories, highlighted above.

RBV is based on the notion that intangible (as well as tangible) assets create sustainable competitive advantage if they are rare, valuable and inimitable; providing basis for M&A transactions along with other FDI modes. It also helps to analyze technological knowledge as a key intangible resource, the extent to which it may spillover into local firms, with a limited absorptive capacity, in emerging economies (Liu and Zou, 2008).

There is a growing body of literature arguing that TCE and the RBV are complementary because theoretical perspective alone cannot fully explain the decision involving alliance with another party (Ellram et al., 2008; Vivek et al., 2008; Holcomb and Hitt, 2007; Jacobides and Winter, 2005; Madhok, 2002; Combs and Ketchen, 1999; Poppo and Zenger, 1998). TCE focuses primarily on the role of efficient governance through transaction analysis in explaining firms as institutions for organizing economic activity, where RBV focuses on the search for competitive advantage, through resource analysis. In effect, TCE is focusing primarily on governance skills, whilst the RBV focuses primarily on production skills. In addition, alliance decisions in practice are being influenced by both capability considerations and TCE variables such as asset specificity (McNally and Griffin, 2004; Madhok, 1996).

Although TCE and the RBV are focusing on two different issues, (1) why firms exist and (2) why firms differ in performance, these two issues are very relevant to the field of operations management and the alliances decision (Ronan, 2008). The influence of the RBV has also increased in the operations management area, some have argued that the operations area is at the heart of developing organizational capabilities that create competitive advantage (Lowson, 2002; Coates and McDermott, 2002; Vastag, 2000). The development of capabilities is strongly influenced by competitive priorities (such as cost, quality, flexibility and delivery) which are at the heart of an organization's operations strategy (Boyer and Pagell, 2000; Leong et al., 1990), and have important implications for which activities should be performed internally and which should be carried out by forming alliance. This assessment of competitive priorities of the organization can serve as a means of achieving performance improvements in the areas of cost, service and quality (Ronan, 2008). However, the potential for performance improvements has to be balanced against the prevailing conditions in the supply market. TCE provides a powerful theoretical lens to augment this analysis. As well as assisting in assessing alliance

performance, TCE can also enhance understanding of impact of forming alliances or developing in-house capabilities (Stratman, 2008; Grover and Malhotra, 2003).

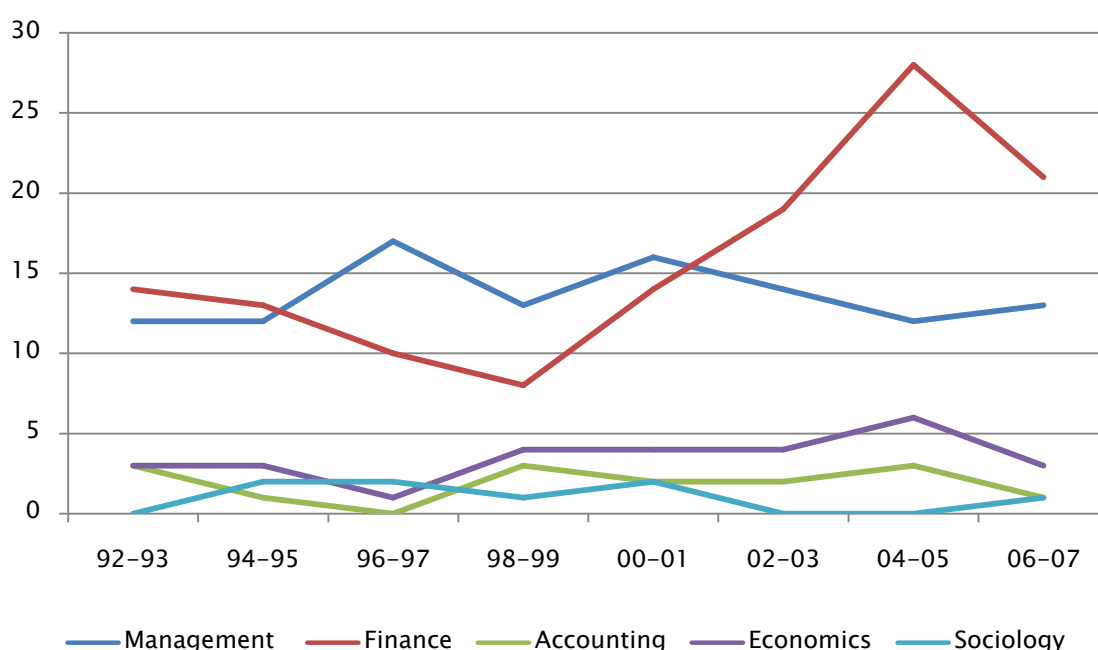
Efforts to merge the TCE and RBV approaches have also been emphasized in the literature by Conner and Prahalad (1996); Santos and Eisenhardt (2005); Wagner (2006) and Williamson (1999), and they have used it to investigate strategic relationship issues between parties involved in transactions. Use of the two theoretical perspectives together, therefore, increases the understanding of the relationships among internal and external factors that impact the effective M&A decisions. Hence, in this study combination of both these methods has been considered to undertake the literature review.

3.2 Theoretical Base for This Study

The objective of the literature review is to get acquainted with the research so far carried out on the subject under consideration. Also, to come across the areas where adequate work has not yet been carried out, or requires further research.

The research on M&As till 2009 comprised of 884 article, out of which 167 relevant ones, can be classified on the academic discipline basis like Management, Finance, Economics, Sociology and Accounting. Such categorization disclosed that management and finance have major share in the published acquisition research during the last two decades (Haleblian et al., 2009, p.472), expressed graphically in the Figure 5.

Figure 5: Trends in Research on Mergers and Acquisitions; Number of Articles by Discipline



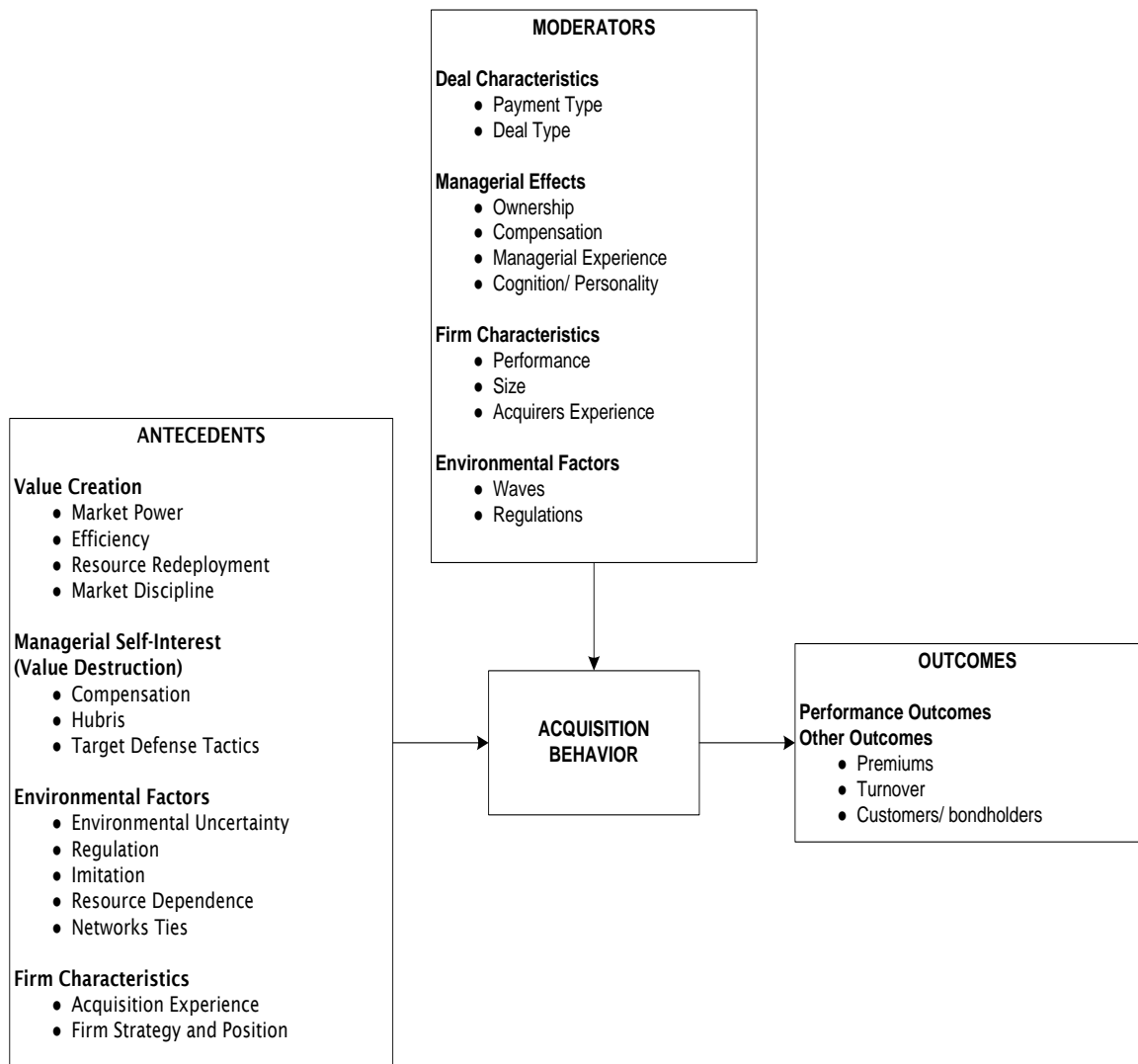
(Source: Haleblian et al., 2009 p.472)

Haleblian et al. 2009, has further, analyzed the research carried out on M&A subject with reference to the strategy and processes involved in such transactions, which substantiates the basis of this study, in the following manner:

- a) **Antecedents: Why do Firms Acquire?** - Besides numerous proposed precursors, four major categories have been identified: value creation (Eckbo, 1983; Stillman, 1983); managerial self interest (value destruction) (Agrawal and Walkling, 1994) (Deutsch et al., 2007); environmental factors (Folta, 1998); and firms' characteristics (Barkema and Schijven, 2008). Thus, categorizing in broader terms the objectives of undertaking such transactions.
- b) **Moderators of the Acquisition Performance Relationship** - Research revealed numerous situations and conditions that moderate the acquisitions performance relationship, thus forming the major levels of analysis: deal characteristics (Loughran and Vijh, 1997); managerial effects (Hubbard and Palia 1996); firm characteristics (Heron and Lie, 2002); and environmental factors (Moeller et al., 2004). Dealing with the issues relating to the execution of M&As like selection of target firms, their valuations, mode of settlement, management structure etc., and impact of such factors on the outcome/performance of the transactions.
- c) **Other Acquisition Outcomes** - Lower acquisition premiums lead to improved acquisition performance (Hayward and Hambrick, 1997) a conclusion which has been based on implied assumptions along with the concrete evidence. Apart from premiums, turnover, customers and shareholders' values are the most frequently observed nonperformance outcome. Thus, focusing on measurement of performance of M&As on the premise of several related factors and drawing conclusion thereon (Comment and Schwert, 1995; Field and Karpoff, 2002).

Above has been graphically elaborated by Haleblan et al. (2009) in the figure 6:

Figure 6: Mergers and Acquisitions Literature Overview



(Source: Haleblan et al., 2009, p.473)

According to Haleblan et al. (2009), research carried out on M&A can be broadly categorized into two major well known groups; strategy on the one hand, and process management on the other hand. The majority (61%) of papers published on M&A in top-ranking management journals between 1963 and 2009 fall within the broad domain of strategy, including articles dealing with the performance outcomes of M&A transactions, firm's M&A-related strategic decisions, as well as a smaller set of papers dealing with M&As as part of broader industry dynamics and strategies. Out of remaining, 32% of published papers between 1963 and 2009 represented thematical area broadly related to M&A management, focusing on the process of pre-acquisition management and post-deal integration, the human side of M&A activity (including employee reactions, human resource management, executive compensation and turnover, and corporate governance), the cultural issues at stake (as regards cultural, identity, or language related issues in M&A), knowledge related perspectives (be it as regards knowledge transfer, learning or experience in M&A), or still advertising/marketing or media perspectives to M&A.

The remaining 4.5% of the papers related to the domain of finance, clearly under-representative, as only one finance journal was included in the sample (Cartwright et al., 2012).

Similarly, based upon study of 144 articles on M&As Shi et al., (2012) have identified a significant gap in the literature, stating that there were several promising research directions for the direct conceptualization and measurement of time constructs. They emphasized that directly studying time constructs such as speed, pace, rhythm, and sequence is important because they are subject to management control, and how they are managed can inform us as to their impact on organizational outcomes. Thus, emphasizing on the significance of a study related to the process involved in conducting M&As transactions, and their impact on the transaction's performance.

Findings of some of the studies suggested that acquisitions did not enhance acquiring firm value, as measured by either short-term (Asquith, 1983; Dodd, 1980; Jarrell and Poulsen, 1989; Malatesta, 1983) or long-term performance measures (Agarwal et al., 1992; Asquith, 1983; Loderer and Martin, 1992). More specifically, acquisitions were often found to erode acquiring firm value (Bradley et al., 1983; Morck et al., 1990; Jennings and Mazzeo, 1991; Byrd and Hickman, 1992) and produce highly volatile market returns (Langetieg et al., 1980; Pablo et al., 1996).

Research carried out on the subject concludes that acquirers take benefits from the acquisition subject to certain conditions and situations. However, generally acquisitions are not profitable for the acquiring firms. Such outcomes have to be authenticated in the presence of existing research work. It is unfortunate that detailed outcomes of the acquisition research have not been published in the last ten years despite its practical and theoretical significance, consequently creating differential opinions regarding the acquisition process (Haleblian et al., 2009). This study, hence, endeavored to analyze the outcome of M&As in the context of process related to business evaluation as a subject.

The literature review, as per ambit of business evaluation process, discussed in section (1) of this study, has been confined to: identification/selection of target firm; valuation of the firm; and its post acquisition performance measurement. The significance and role of each such related matters is discussed below with reference to studies carried out on them:

3.2.1 Selection of target firm

Motive or objective is a first step for entering into merger transaction. On the academic front, there has been a great amount of debate about the motives for M&A activity over the past three decades (Mueller and Sirower, 1998), including economic efficiency (Jensen, 1993), managerial self-interest (Marris, 1964; Mueller, 1969, 1989), and a market for corporate control (Jensen and Ruback, 1983; Manne, 1965).

Objective that the acquiring firm wants to attain can either be based upon subjective or objective issues (Faccio and Masulis, 2005). This helps in short listing and then making final selection of the target firm. Such decision making process is influenced by number of factors such as composition of the board of directors or management structure of the firm, emerging from the pattern of shareholding of the acquiring firm as well as, to some extent, related corporate laws of the country/countries involved (Porrini, 2004). Accordingly, the objective should be the first and foremost step in the selection of a firm, and also forms basis for the valuation as well as performance measurement.

While selecting a target firm, apart from defining objective, other ancillary factors are also significant in making the decision: nature of the transaction, either merger or acquisition or amalgamation; how the consideration is going to be settled either through swap of shares or payment by way of cash; level of shareholding to be acquired, in case of acquisition, or shared in case of merger; possible restructuring after acquisition; expected management structure; and so on (Luo et al., 2001; Williams and Liao, 2008; Faccio and Masulis, 2005). Research, hence, needs to be carried out to see how these factors are handled by the firms while undertaking M&A transaction, and how do they impact the transaction's final outcome.

Researchers have investigated managerial motives such as fame and coverage in the popular press associated with acquisitions, status and power associated with managing larger firms, and overconfidence and ego driven decisions with poor acquisition results (Hayward and Hambrick, 1997; Reid, 1971; Roll, 1986). While other researchers like Gilson and Bernard (1986), and Haspeslagh and Jemison (1991) have sought to explain poor post-acquisition returns by citing poor target selection, acquirers' willingness to pay too much, and long and costly integration processes. Studies in the acquisition literature have also examined variables such as relatedness between the acquirer and the target, method of payment, acquisition premiums and acquirers' acquisition experience as factors that correlate with acquisition performance (Porrini, 2004). These factors, thus, should be thoroughly investigated by examining the checks and balances deployed in the selection process. Despite various studies by distinguished scholars, it has been observed that the acquisition antecedents have not been categorized into primary, secondary and tertiary triggers, and also their joint effect is also unclear on the acquisition behavior. Some of the basic questions are still to be answered like; acquisitions are driven by profit motives (market power, efficiency, asset redeployment, and market discipline) or managerial self-interest (hubris, empire building to justify increased compensation) (Haleblian et al., 2009).

Talking about selection of firm, Irfan (2012) has identified following commonly used explanatory variables in the literature which determine the likelihood of firms' acquisition along with liquidation, and can serve as a guideline in investigating the research subject:

- i) Literature suggests that older firms develop a brand name and reputation in the industry which makes them attractive targets for acquisitions (Esteve-Pérez et al., 2010).
- ii) Acquisition of large firms requires large investments and thus increases the cost of acquisition. Shleifer and Vishny (1992) argue that the market for corporate control is less liquid as firm size increases, so an increase in the firm size reduces the likelihood of acquisition.
- iii) Innovative firms are good acquisition targets because the acquisition of innovative firms supports the acquirer's expansion policy and it is an economical way to expand (Heeley et al., 2006). Therefore, it is expected that innovative firms are more likely to be acquired.
- iv) High leverage firms are less attractive targets for acquisitions, because acquiring a high-leverage firm transfers the risk of the debt burden to the acquirer (Fotopoulos and Louri, 2000; Kornai, 1998; Pastena and Ruland, 1986).
- v) Acquisitions act as a corporate control measure to improve firms' performance (Jensen, 1986; Shleifer and Vishny, 1994). Hence, it is expected that the least-profitable firms are more likely to be acquired.
- vi) Firms which are unable to efficiently utilize their assets are good targets for acquisitions (Jensen, 1986; Shleifer and Vishny, 1992) as acquisition allows the transfer of resources from low-value usages to high-value usages.

Extent of equity ownership in case of cross-border mergers or acquisitions, particularly, is important because of its implications for resource commitment, risk, returns, and control (Anderson and Gatignon, 1986; Luo et al., 2001). The share of equity acquired by foreign firms in cross-border acquisitions (CBAs) could vary, 100% equity in local firms, defined as full acquisition, tantamount to stronger control on the affairs of the acquired firm, where, acquiring less than 100% equity is a partial acquisition, like a type of joint venture (JV), or as an equity alliance (Barkema and Vermeulen, 1998; Chen and Hennart, 2004; Das and Teng, 2000; Hennart, 1988, 1997; Pisano, 1989). Therefore, level of equity, particularly in case of cross-border acquisition, would have great implications on the management and control over the affairs of acquired firm. Consequently, it is a major consideration while selecting a firm as well as determining the price consideration. Agency theory has dominated research on equity holdings-firm performance relationships; however, consensus could not be developed about the direction and

magnitude of such relationships, as confirmed linkages between a firm's performance and CEO, officer, director, institutional, or block-holder equity could not be established (Dalton et al., 2003). Among other factors, a level of shareholding in the post transaction period is also a pertinent factor while making selection of a target firm, and has an impact on the outcome of the transactions.

Luxury of acquiring 100% shares in cross-border merger or acquisition is not always available in all the cases, hence, it should not bar firms from entering into the transactions. Research on the subject has investigated and concluded that foreign firm will seek a lower share of equity in local firms which are in: a different industry than when they are in the same industry as the foreign firm; more R&D-intensive industries than when they are in less R&D-intensive industries; culturally distant countries than when they are from culturally closer countries; larger in size than when they are smaller in size; countries with greater employment contract rigidity than when they are from countries with less employment contract rigidity; countries with higher country risk than when they are from countries with lower country risk, and countries experiencing greater levels of CBA activity than when they are from countries experiencing lower levels of CBA activity (Chari and Chang, 2009). This can help in assessing the equity requirements in different cases along with their implications in the merger process to assess the transactions outcome.

Decision making of the acquiring firm as to selection of firm and its related matters is vitally influenced by the pattern of shareholding of the firm. Shares might be held by general public, institutions, individual sponsors or employees. All these groups have different perspective of way forward. The more the shares are held by a group the more, generally, they are in position to influence the decisions, including those relating to M&As. In case, for example, the motive is making profits, and declaring dividends than the long-term perspective would be overruled. Similarly, in this context, a variety of still open questions in the field of governance, need to be taken care of. One of the questions identified is whether the costs and benefits of concentrated ownership are significant (Shleifer and Vishny, 1997). This has encouraged future researchers to consider the potential for governance mechanisms, ownership or otherwise, to effectively substitute for one another and/or operate in concert while investigating the outcome of M&As.

Over a period of time, different researchers have drawn diversified views on the composition of the board of the directors and corporate governance of a firm. Sir Adrian Cadbury in the 1990s, a powerful show in 2001-02 by debacles at Enron and WorldCom, and the subsequent Sarbanes-Oxley legislation argued that companies needed to have

powerful shareholders and independent directors to keep a watchful eye on managers. In 2009 both the New York Stock Exchange and the NASDAQ demanded that companies should have a majority of independent directors (Schumpeter, 2010). Contrary to this, research by Erkens et al., (2009) powerfully reinforced that the directors who were well informed about finance performed no better than know-nothings. Companies that separated CEOs and chairmen did no better. Far from helping companies to weather the crisis, powerful institutional shareholders and independent directors did worse in terms of shareholder value. Indeed, the proportion of independent directors on the boards was inversely related to companies' stock returns. They argued that outside shareholders may be inherently more risk-hungry than managers who have their livelihoods tied up with their companies. They also argued that independent directors were much more likely to press firms into raising more equity capital even when the firm's share price was tanking. One possible reason for this is that independent board members are worried that their value in the market for directorships will plummet if they have overseen companies that have filed for bankruptcy or debated restructuring (Schumpeter, 2010). These divergent views provide food for thought in drawing conclusion about the effectiveness of decision making process of any organization and to measure the outcome.

Analyzing the role of management structure on decision making process – including those related to M&A - numerous studies have investigated the relation between corporate governance structure, decision making and firm's performance (e.g., Bhagat and Bolton, 2008; Dahya et al., 2008; Gompers et al., 2003; Klapper and Love, 2004; McConnell and Servaes, 1990, 1995; Morck et al., 1988). Shleifer and Vishny (1997) suggest that controlling shareholders is led by the incentive to pursue private benefits at the expense of minority shareholders. Similarly, when state is having controlled shareholding in a firm, various public objectives are pursued at the cost of performance (Liu et al., 2012; Bai et al., 2000; Sun and Tong, 2003; Zhang et al., 2001). Performance of firms potentially improved with the increase in managerial ownership (Li et al., 2007 and Hu and Zhou, 2008) offer evidence that firms perform better when their managers take equity stakes. Firms, thus, adopt governance structures to maximize their firm value in response to exogenous contracting environments (Liu et al., 2012).

Relationship between firm's value and its corporate governance can be better analyzed during crisis period in contrast to the normal economic situation (Kuppuswamy and Villalonga, 2010). In case of state owned enterprises (SOE) firms perform better during crisis as state provides substantial credits, allaying financing constraints, while causing overinvestment problems in normal economic conditions (Liu et al., 2012) severe during

crisis periods, and is of significance during valuations (Baek et al., 2004; Johnson et al., 2000; Mitton, 2002; Lemmon and Lins, 2003).

Also, hiring outside directors on the board of directors of a firm to get outside view/experience on acquisitions has a positive relationship to the success of acquisitions. As far as the number of such directors is concerned, the more the number the positive the impact would be. The compensation for such engagement in shape of shares is considered to be more effective, as it can involve direct personal interest of such directors (Deutsch et al., 2007). Composition of board of directors influences the decision making process, depending upon their background and level of interest in the organization. Such a factor needs to be investigated with reference to the outcome of the decisions undertaken by them.

Apart from the factors influencing decision making process like a level of shareholding as well as composition of the boards or committees, other issues pertaining to geographical location, method of acquisition and nationality of the target firm may also result in abnormal returns to the shareholders of the target firms and in exceptional cases to the shareholders of the acquiring firms (William et al., 2008). Hence, it should be given due weightage, not only at the stage of selection of firm but also while undertaking their valuation. The role of geographical factor along with the size of the target firm can also be amplified with reference to the banking sector, where the perspective of holding firm acquiring shares of another firm is related to the size and location, inter as well intra city, presence of the target firm. In such cases out of state, preference is given to the urban areas of new state (Hannan and Steven, 2009). Accordingly, where relevant, it should also be weighted as decision making factor.

The mode of settlement of such transactions is also a central part of the decision making process, but at times it is intertwined with other factors like level of shareholding of different groups. It has been analyzed that cash as a mode of payment for settlement of mergers are particularly strong when a bidder's controlling shareholder has an intermediate level of voting power in the range of 20-60%. Furthermore, bidders prefer cash financing of M&A transactions when the voting control of their dominant shareholders is threatened. This is particularly the case when target shareholdings are highly concentrated (Faccio and Masulis, 2005). Mode of settlement has also been analyzed in the context of a success rate of the transactions, hence, can be used as a tool in their execution. The probability of merger completion/success analysis, using deal/firm/equity price information, revealed that payments in the form of cash tend to enhance the likelihood of a successful takeover attempt, compared with the use of stock

in payment. In stock swap merger attempts, a range of exchange ratios (collar) tends to improve the chance of success as compared with a fixed exchange ratio (Branch and Yang, 2003; Branch and Yang, 2006). Mode of settlement is another important factor influencing the decisions relating to not only the selection but also the valuation of firms.

A careful attention regarding deal structure is desired on two aspects: price premium and financing type. Mergers often fail due to paying too high a purchase price and overburdening the new firm with high debt payments. The decision of whether to finance with cash, stock, or a combination depends on a number of factors, including accounting and tax implications. In case of stock both the companies must consider whether their own stock and the other firm's stock may be overvalued or undervalued at the time of the deal (Epstein, 2005).

Structure of M&A transactions is dependent upon the level of resource commitment and control, meaning an ability to influence management systems of the organization with an objective to improve its competitive position and maximize returns on firm-specific assets (Agarwal and Ramaswami, 1992). This can be exemplified with reference to hotel industry, where it may fall in between licensing and that a wholly owned subsidiary (Sanchez and Pla-Barber, 2006; León-Darder et al., 2011).

Let alone the impact of all related factors, the organizational learning from past experience, referred as “imitation”, helps in making M&As decisions. The imitation process can be with reference to firm's own experience (firm level), market experience (market level) and industry experience (industry level) (Yang and Hyland, 2006).

Fame and coverage in the popular press associated with acquisitions, status and power associated with managing larger firms, and overconfidence and ego driven decisions have also been investigated as managerial motives behind acquisitions and their poor results (Hayward and Hambrick, 1997; Reid, 1971; Roll, 1986). Similarly, target selection, method of payment, acquisition premiums and acquirers' acquisition experience have also been researched as equally significant factors behind such transactions (Gilson and Bernard, 1986; Haspeslagh and Jemison, 1991; Porrini 2004). These considerations carry weight while investigating the reasons for the outcome of the transactions.

Synthesis:

The studies on the subject have emphasized that how merger results are influenced by factors: Mode of settlement of transaction in cash or equity swap basis - in the form of a range of exchange ratios or fixed exchange ratio (Branch and Yang, 2003: 2006); mode of the merger transaction whether in the form of acquisition or merger (Williams and Liao,

2008); level of shareholding in the target firm under different circumstances (Chari and Chang, 2009); nature of industry, geographical location, size of the business etc. (Williams and Liao, 2008) ; level of shareholding of key management players in a acquiring firm (Dalton et al., 2003) ; role of outside directors and their number on the board of directors (Deutsch and Laamanen, 2007); exposure of the firm, management, directors and industry to merger transactions (Yang and Hyland, 2006); and profitability of the acquiring and target firm (Hannan and Steven, 2009).

Research over the period, hence, has underlined the role of different factors, in the given circumstances, on M&A transactions. But their role as ingredients of business evaluation process have not been analyzed in the context of outcome of M&A transactions, starting from the first stage of selection of business, and following through the processes involved in the subsequent stages of valuation and performance assessment.

3.2.2 Valuation of target firm

Successful M&As need to be established on the basis of reasonable assessment of the target firm's value. Because of the uncertainty associated with the value of a target firm, valuation is to be carried out in different situations arising out of decision making in M&As (Zhu and Jin, 2011).

Business valuation, here, refers to the worth of the selected target firm determined to settle the price consideration for the merger or acquisition. In simple terms this process refers to determining the net worth of the assets acquired less the amount of liabilities taken-over. But technically speaking this process is not as simple on account of various reasons like: intangible assets of the firm; restructuring or reorganization of the target and acquiring firm expected after the transactions; likely positive or negative impact of the transaction on the acquiring along with the target firm. Apart from these financial reasons there could be non-financial factors like social, cultural, political issues involved as well, and for such cases criteria for valuation may be different from what would have been followed for financial reasons. But the objective of the transaction bellwethers the related factors to be adopted/considered for execution of the valuation (James, 2005; Basu et al., 2008; Reuer et al., 2003; Canina et al., 2010; Astrachan and Peter, 2008; Faulkner et al., 2002; Gande et al., 2009). This in snapshot defines the characteristics of valuation determination process and its linkage with the process of selection of a firm for such purpose.

M&A transactions, most of the time, require thorough examination as to whether, how and under what conditions firms can extract worthy resources or benefits from the

transaction, despite the fact that the assets in focus shall be subsequently divested, is of immense importance for determining the consideration to be paid for the merger or acquisition. Such restructuring could generate opportunities of acquisition for competitors as it compels the divestiture of capital assets, products and businesses that are strategic misfits. Hence, a more focused study on the approach which emphasizes upon the divestitures as antecedents to acquisitions, in addition to eventual consequences of acquiring, shall be required, which shall be premised on the type of acquisition, the level of industry concentration before and after the acquisition, the level of differentiation in product or services offerings in the industry and barriers to entry to the market creating effects of the consequences to customers and other stakeholders (Haleblian et al., 2009). The entire exercise, therefore, demands not only financial but technical, marketing, human resource and other related departments input as to the eventualities likely to incur in the post merger era. And incorporation of the related factors or contingencies into the valuation process to make it more realistic and measurable in terms of performance assessment.

Due diligence, being part of business valuation, is a process that ensures the potential deal can succeed in implementing the proposed strategic vision. The due diligence team should comprise members from both companies across a number of different functional areas and include accountants, lawyers, technical specialists, and other experts. It includes formal financial review of assets, liabilities, revenues, and expenses and substantiation of the financial records. Numerous nonfinancial elements, including the investigation and evaluation of organizational fit, ability to merge cultures, and the technological and human resources capabilities and fit, also fall in the due diligence scope (Epstein, 2005). This process cannot be undertaken in isolation and has to be aligned with the basis of selection of firm, by focusing on the objective of the transaction and other ancillary matters.

As such transactions involve integration, transfer, and management of resources of the combined firm by the acquiring firm; as a consequence, it has been observed that the market value of the other firms in the industry, as a consequence to acquisition declarations, is increased (Song and Walkling, 2000). For example, horizontal acquisition results in industrial consolidation and diminishes the existing customer's commitment to and from target firms, which generates expansion openings for survivors (Berger et al., 1998). This demonstrates the likely impact of the transactions on the market, competitors as well as customers, and should be reckoned with during valuation process.

Integration process is vital for the success of merger, in this phase key decisions are made in the areas of leadership, structure, and timeline for the process. It is important to establish clarity in roles and responsibilities for those involved in the integration process, versus those in operating businesses. Communication efforts must be coordinated, widespread, and quickly developed; prompt decisions, planning and over communication with all the stakeholders is critical. Firms often destroy mergers during the integration phase therefore processes covering the management of human resources, technical operations, and customer relationships must be carefully studied and structured. This stage begins with proper premerger planning, which is dependent upon good execution. After the announcement, a successful implementation can only be achieved if all parts of the organization have the knowledge, resources, and commitment to move forward at an often blistering pace without destroying value in the process (Epstein, 2005). This emphasizes the role of intangible factors relating to human resource integration along with the integration and restructuring of the operational matters, while undergoing valuation process.

Apart from the factors under the control of the firm that influence the success of mergers, changing economic conditions may leave vital impact on the dynamics of employment and customer retention that could not have been anticipated. In evaluating most mergers, however, the effects of external factors should be considered more carefully, especially the economic factors. In a strong economy, a poor merger may appear to be more successful, while a strong merger may look weak under poor economic conditions (Epstein, 2005).

Other than external factors pertaining to customers, suppliers, quality, pricing, etc. the internal cohesion and integration or relatedness of both the merging firms are also very important for merger related decisions like selection of firm and its valuation. This feature is more relevant to the horizontal mergers, and one can conclude that the possibility of success of domestic mergers on account of internal integration issue is more relevant than cross-border ones (Canina, 2009).

Mentionable number of M&A transactions is related to the acquisition of units or departments of another firm instead of the entire organization, the approach towards valuation, in such cases, varies from the valuation of the business as a whole; its emphasis is more on possible restructuring and absorption in the acquired firm's operations, and related costs along with benefits. Although the basis of valuation are the same routine ones like net inflows discounted or premier added to it on the basis of on ground facts. But one has to restrict itself by defining the boundaries of the department or unit acquired

in terms of processes, costs and benefits. The discount factor in such cases is used to induce impact of lack of control and marketability, where, premium is added to define the level of knowledge, skills, patents and copy rights, which are not reflected in the net inflows but their impact does exist (James, 2005). It has also been investigated that for realistic valuation, while considering restructuring and reorganizations for such transactions, the bidder and target firms can be better assessed on the basis of different components or departments of the firms and analysis of their financial statements (Basu et al., 2008).

Valuation is a continuous process and the forecasts prepared for the purpose should be reviewed and changed with the changing circumstances as well as on availability of more facts and figures till the price is finalized. Dommert and Getzen (2005) have investigated that the tendency not to engage in a formal forecasting process and lack of monitoring and control, may lead to: confusion about the nature of the forecasting in general; methods to be used to generate the budget and forecast; uncertainty about how to measure the accuracy of forecasts; and lack of appropriate accountability for the variances. Effective and realistic valuation, therefore, demands regular review of basis of valuation even during the process of negotiating the price with the sellers. One of the reasons for the failure of mergers is ignoring the integration factor at the time of evaluating a firm, the integration factor extends to include likely combined – of acquiring and target firm - benefits and drawbacks of products, services, customers base, operational efficiency and so on (Canina, 2009).

While determining the price consideration, in addition to the value of the business being acquired, premium is paid to the sellers, calculated and analyzed by applying different statistical techniques to determine weightage of: Acquisition Premium Diversity; Size of the Deal; Network Diversity; Industry Diversity; Partners Organization Size; and Network Multiplicity (Beckman et al., 2002). In contrast, non financial factors can be related to the emotional attachment with the businesses, which though, do not give financial benefits but result in satisfaction which cannot be quantified. On the other hand, such factors can also result in emotional cost instead of benefit, like engaging in the family business someone who is not competent (Astrachan and Peter, 2008).

Valuation process cannot be avoided by relying on the value at which shares are traded as they do not reflect the true value to settle M&A consideration. Mellen and Sullivan (2007) have revealed that they are often traded at 30 percent discount to what they would value if they are adjusted in the light six lessons: objectively value the firm's individual business units; business units evaluation should be an ongoing process; buy high-data

suggests that top performers are those having high value-to-capital ratio; relentlessly manage low growth-press for low opportunity business to be extremely disciplined and efficient; optimize capital structure through value creation and send money home - react quickly to the opportunities. This suggests the vitality of the process, linked with the basis of selection of the firm, which should be followed to arrive at realistic value of a firm.

Not only the factors that impact the valuation process, technicalities involved in calculating the amount also plays a vital role, and vary from one transaction to another, based upon its features and objective. Kamstra (2003) has argued that the algorithmic valuation techniques provide the best rough starting point for a firm's valuation, as analyzed on the basis of data of a specific firm as well as similar companies (Kamstra, 2003).

Valuation process, besides complexities involved, can also be stimulated by seeking guidance from the outcome of different studies on the subject like: revenue enhancement opportunities are mostly profitable in case of those mergers that provide a greatest opportunity for the cost cutting activities; activity and geographical focusing mergers normally result in better profitability in shape of increased revenues; profitability assessment can be based upon cash flows after taxation instead of profits; and in addition to the ratios, the behavior of stocks prices over a longer period can also be evaluated to substantiate these results (Cornett et al., 2006). It means that each transaction is unique in its nature, depending upon the background and related matters, and rule of thumb cannot be applied by ignoring the necessity of entering into the transactions.

Reliance on financial factors for valuation is not enough; various other factors like human resource, government regulations, cultural and political should also be taken into account by adding their likely cost impact. Giessner et al. (2006) have investigated that employees of merging organizations often show resistance to such transactions, their support can be gained by ensuring premerger status through planned merger pattern. Investigation into the influence of premerger status (high, low) and merger pattern (assimilation, integration-equality, integration-proportionality, transformation) on participants' or employees support revealed that a merger between two organizations needs a human resource management team to provide support to the employees involved and make them aware of the implications of the merger pattern. This aspect is also vital for planning restructuring of the firms at the time of selection and valuation stage (Giessner et al., 2006). Amiot et al. (2006) have researched that involvement of employees on the both sides in the entire merger process helps in removing the uncertainties in their minds as to its impact on their employment as well as for building their confidence through their

ownership of the entire process. These studies underline the importance of non financial matters which should be embedded in the valuation process, as they can have remarkable influence on the transactions outcome.

Other than the features of the transaction, external factors like government regulations, also, have a deeper impact on business valuations and transactions outcome. Yulong et al. (2004) substantiated this through statistical analysis of data available from stock exchanges, and investigated that let alone the impact on merging firm, such regulatory role has a negative impact on the industry as a whole, signifying the impact of government rules and regulations on such transactions and their valuations.

Not only the financial factors, a valuation process is also very much linked with the assessment of two different environments of merging firms, avoidance of which may cause; cultural clash, firm identification issues, communication difficulties, ego clashes etc; in the post merger period. The assessment can be undertaken by properly planning restructuring at the initial stage and by clearly identifying the role of leadership during implementation (Bligh, 2006). On the contrary, Morosini et al. (1998) has investigated that the representation of the local culture in an organization is instrumental in establishing a link between the two cultures the transactions. The cultural disparity has also been analyzed in the context of time duration and its impact has been investigated to be positive on long-term basis. As this can provide competitive advantage to acquirer firm as it can access valuable capabilities spurring innovation and learning, by helping in breaking rigidities of culture which could either be of a corporate firm or of a country (Chakrabarti et al., 2008). Understanding about the culture and environment of a firm or a country can be augmented with the help of past experiences of the acquiring firm in handling merger transactions (Dikova et al., 2009), emphasizing the need to engage experienced people in the business evaluation process.

Assessment of political aspect is also important along with the issues pertaining to the two firms, and it has been investigated that political uncertainty negatively impacts firm's value. The risk level may vary with the change in circumstances as well as the characteristics of the companies involved: the risk is more in case of assets based companies than growth based ones; the companies having foreign subsidiaries are affected depending upon the degree of relationship between local firm and the foreign companies; negative effects do not impact other countries whether neighbor or not; the domestic companies are effected more than the ones having businesses in other countries; where the political uncertainty is negatively affecting the return on stocks, the investors

do not require a risk premium and the degree of volatility varies with the level of political uncertainty (Beaulieu et al., 2005).

Like political factors, geographical aspect – location of the firms - is also significant while valuing M&A transactions. Internalization Theory and Imperfect World Capital Market theory proved that multinational diversification adds to the value of the firm; on the contrary, it discounts firm's value when diversification is on industry basis. The theory, as investigated by Gande et al. (2009), has implications while assessing corporate governance on the basis of factors like creditors rights of the other country and common laws. It concludes that stronger creditors' right has a positive impact on the value; in contrast, common law does not bear any such effect. On regional basis, acquisition of a cross-border firm by Emerging Market Multinational firm has a net negative impact on bidder's worth. Although, some of the factors like size of the target firm, its ownership structure (private vs. public), and structure of the bidder (diversified and none diversified) have positive effect, but the high tech nature of the bidder and pursuit of targets in related industries leaves negative impact (Aybar and Ficici, 2009).

Doukas and Kan, (2004) has researched that diversification of nature of business, like geographical diversification, also causes ripples in the valuation process. The cash flow and the value of an acquired firm are negatively affected when its business is diversified from the business of the acquiring firm, the more diversified is the firm the more is the negative impact. This reason is of value not only for the selection but also for the valuation of the targeted firms.

Management's excitement or keenness to go for a merger or acquisition, driven by trend in the market or to supersede competitors, at times, overrules the processes or principles to be followed for a valuation. The acquirers in most of such cases bear the brunt of the failure of the transaction. Because of this reason it has been concluded by Luo (2005) that outsiders, not normally carried away by the excitements, are realistically well aware of the merger effects and its valuation than the insiders. This was substantiated by cases where the assessment was not positive but still continuing with the transactions resulted in failure of mergers, which negatively impacted the shareholder's market worth. Luo (2005) further investigated that other than excitement factor the negative impact can also be caused when: pre merger agreement has not been entered, and the cost of giving up the deal is not high; highly technical companies are not involved; size of the bidder is not large, that it cannot have a set up fully equipped to undertake sort of valuation or analysis.

Whether the valuations carried out, from the acquirers perspective, is rational and justifiable, can be assessed by referring to annual returns and market worth of its shares.

Lübbers (2008) has revealed that, on the basis of this criterion, generally, the shareholders of target firm get negligible benefit. This, according to him, is similar to the case of cartelization where the firms joining hands get insignificant benefit; under such an arrangement, to achieve the objective of monopolization of the market, even the poor performing firms are paid premium.

Reuer et al., (2003) has researched that wrong valuation often results in failure of mergers and non-addition or reduction in the shareholders worth, and the risk can be mitigated by adopting Contingent Payouts method of payment, which is more common while acquiring: noncore businesses as compared with core businesses; Industry which is more related to technology; intangibles being major part of the business value and international acquisitions rather in case of local ones. However, its application is more reliable when reinforcement of laws in acquired firm's country is satisfactory. Hence, the shortcomings of selection and valuation processes can be, to a limited extent, hedged through this method but cannot be taken as substitute to the desired valuation process, and cannot ensure positive outcome of the transactions.

Synthesis:

The literature review has highlighted extensively factors and reasons impacting the valuation of target entity entailing tangible and intangible as well as financial and non financial issues. It also signified various calculation methods and, likely, circumstances surrounding them. The studies have analyzed that how different factors like human resource, cultural disparity, political factors, diversification of businesses, network partners, distinguish between bidder and target firms etc. can have an impact on the matter. Discussion has, also, been made on the behavior of stocks value in the pre and post merger situations, and other valuation methods like discounted cash flows and its related factors. In some cases, very rightly, ignorance of intangible factors for conducting the valuation has been highlighted. In a study (Reuer et al., 2003) it has been analyzed that merger failures are on account of improper valuations, to overcome this uncertain situation "Contingent Payout" method, particularly, in the technology sector, has been suggested. This method links the settlement of merger transaction on attainment of merger results. Though this method cannot be followed in all the cases and it may result in unjustified delays and adjustments to the transactions settlement.

Varied valuation methods and how different factors impact their results have been discussed, in the above studies, with reference to the M&A transactions in general but processes involved in valuation and determining the price consideration have not been thoroughly dealt with. This study, thus, analyzed the relationship of all the factors

identified by the acquiring firm while selecting target firms with the subsequent process of determining the value of the firm. And, finally, how does continuation of such processes at both the stages impact the performance measurement, discussed in the later part, as well as the outcome of M&As.

3.2.3 Performance Assessment

Research on performance of post-cross-border M&As has three main streams: first one, explores broad topics including integration between acquirer and acquired firms; second one, examines the issue of wealth creation to the shareholders, usually examine stock market's reactions to M&A announcements; and third one, examines post-M&A performance, using relatively longer term measures in comparison with other modes of entry (Shimizu and Hitt, 2005).

Performance assessment, in this study, refers to a sort of performance or monitoring mechanism inducted by the management of the acquiring firm, as a continuation of the business evaluation process, to initiate further steps, where desired, to rectify the basis already adopted for the success of the transaction. The parameters of such assessment should, logically, be aligned with the basis followed for the selection or valuation of the target firm. Any assessment with basis isolated from the processes related to selection and valuation of target firm would lead to conclusion, away from the objective for which the transaction was undertaken.

Epstein (2005) has researched that the causes of failure of M&As have often been shallow and the measure of success is weak, accordingly claim of some of the studies that 7 out of 10 mergers do not come up to expected promise is not correct. He has concluded that M&A, over a longer period of time has been studied in terms of narrow and uninformative measures, such as short-term stock price. This led to inappropriate conclusions, as many studies investigating the cause of failure of M&A transaction have taken such findings at face value. Accordingly, M&A performance assessment desperately needs a new perspective and a new framework for analysis based on rationale applied undertaking and executing the transaction.

Similarly, Lubatkin (1983, 1987) researched that the results of acquisitions are difficult to assess accurately, both in terms of the indices used and the appropriate time span over which to judge acquisition performance, identifying vacuum requiring research. Performance assessment has been mostly researched by banking on variables such as potential growth rate and target evaluation (Baker et al., 1981), communication effectiveness (Schweiger et al., 1991; Sinetar, 1981), achievement of merger goals

(Cartwright and Cooper, 1993; Kitching, 1967), organizational culture fit (Buono et al., 1985; Marks et al., 1992, 2000), and retaining the top management team (TMT) (Hambrick and Cannella, 1993). Where, such analysis of M&A transactions frequently fail to acknowledge the issues like the role of people, knowledge gained, or other intangible goals are often overlooked (Hunt, 1987; Kitching, 1967; Levinson, 1970). This has also been substantiated by Cartwright and Cooper (1993) and they have researched that acquisition decisions and negotiations still typically center on financial results and rarely involve consideration of the personnel function. It means that acquisition performance can be gauged with reference to: perceived financial acquisition; goal attainment; and employee satisfaction, representing financial plus non financial outcomes factors (Kiessling et al., 2008), justifying the role of non financial along with financial aspects of the transactions.

Several key variables have been identified in the literature as potentially affecting the performance of a target firm after acquisition, which are: Size; type of purchase; and ownership structure of the target firm (Kiessling et al., 2008). The size differences between acquiring and acquired firm may influence acquisition performance (Kusewitt, 1985). Increase in organizational size adds complexity with increase in structural elaboration and formalized systems for planning, control, and resource allocation (Quinn and Cameron, 1983). Resultantly, increases in organizational size can create progressively stronger resistance to fundamental change (Tushman and Romanelli, 1985). Regarding mode of payment, from the acquirer's perspective, it can use cash holdings, increase debt by borrowing, sell more equity, or use a combination of these. Each option has its own managerial ramifications (Kiessling et al., 2008). Similarly, the ownership structure of the target firm (e.g., privately owned, publicly owned with dispersed stockholders, or publicly owned with few majority stockholders) plays a vital role in performance. Privately owned firms are typically be managed by an owner who is also a member of the top management team, this may or may not suggest that the owner is either retiring or going to pursue other interests (Kiessling et al., 2008). These factors need to be taken care of at the time of selection of firms as well as while assigning value to it for entering into the transaction.

The top management team (TMT) of the target firm is viewed as critical to enhancing post acquisition performance of the acquired firm, as the TMT possesses knowledge critical to ongoing business operations, and its members' departure may heighten the level of disruption and uncertainty in the firm following the acquisition (Hambrick and Cannella, 1993; Krishnan et al., 1997; Singh and Zollo, 1998). Change (e.g., in the composition or authority of the acquired firm's TMT) can have a negative impact on the

performance of the firm once it is acquired. Research suggests that the loss of the TMT on acquired firms will negatively affect post acquisition performance of the acquired firm (Hambrick and Cannella, 1993).

Performance of M&A has been widely discussed and different basis of measurement have been advocated, including those related to stocks market value before and after merger announcements and execution. Also in some cases financial ratios like Return on Assets, Return on Equity, sales volume, profits etc. have been used for the purpose (Heywood and McGinty, 2007; Yook, 2004; Sung and Gort, 2006; Click, 2005). But the performance measurement basis, by following the path of merger objectives and business evaluation criteria, as discussed in the earlier part, has not been discussed and analyzed in depth. This has been vindicated by research carried out on the topic which has concluded that comparison of acquisition performance measures with the subjects of analyses and the questions of interest seems necessary, in order to measure acquisition performance effectively during and after the implementation. Therefore, has stressed that research need to be initiated to develop a more detailed and thorough theoretical and empirical framework of this concept (Haleblian et al., 2009).

Emphasizing on the logic behind the selection of basis for the evaluation of merger success it has been argued that it must be much broader than a simple change in stock price. Epstein (2005) has stressed that we must instead ask what the strategies were for the merger, and whether the goals were achieved. At the same time, we must evaluate whether the strategy and vision were well conceived and whether the merger's conception was superior to possible alternatives. Finally, we must be prepared to disaggregate the non financial factors impact from the results of the merger in order to ascertain which changes are truly attributable to the merger. Only then one can label every merger as a complete success or failure.

Another point of view advocated by Heywood and McGinty (2007) is that performance results are invalid if the basis of assessment is mere looking at the financial statements and conducting their analysis or comparison of value of stock before and after the transaction. They are of the view that depending upon the basis adopted for the valuation, assessment of the merger results can be carried out on cost factor basis, by comparing pre merger results of firms with the post merger results on account of change due to closing down projects or by bringing operational efficiencies. Also the cost reduction may incur due to increase in production by cutting the marginal cost impact. As per such measurement 80% of the mergers carried out do not result in profit. The model adopted for the purpose is sequential, like step by step by considering each transaction

independently, instead of consequential. Sequential here means following the process starting from the planning stage.

EVA (Economic Value Addition), another performance measurement method, based on operating results subject to adjustment of cost of equity has been researched by Yook (2004). He has advocated the method as more practical and reliable as compared with other valuation methods based on financial statement figures or the data available from the stock market. This method argues that the financial statements data is normally manipulated, and reliance on them for significant decisions cannot be placed. Also, stock market data is not reliable for the purpose and is based on prevailing trend in the market or on the basis of data available for previous period. This method, also, finally stressed that its effectiveness by aligning the figures used for the purpose with the basis of the transaction. Apart from EVA, Return on Assets (ROA) method, where suitable, can also be applied to measure the performance of mergers but such analysis is subject to four main conditions: first, the ROA in a majority of countries does not simply track the worldwide ROA; second, some cross-country differences are explained by financial risks; third, unexplained country risk is qualitatively and quantitatively related to unobserved political risk; and fourth, unexplained country risk is also compensated with a higher ROA, enhancing its credibility as a measure of political risk. The unexplained country risk is thus used to calculate a new index of political risk ratings for 56 host countries that may be useful to managers, investors, policymakers, and academics (Click, 2005). The conditionalities attached to different calculation methods reinforce the concept of adopting logical basis for each and every case aligned with their peculiarities and characteristics.

Sung and Gort (2006) on the other hand have discouraged the use of standard methods for all the case because, according to them, mergers do not cause increase in productivity as well as reduction in costs on account of economies of scale of production. Also such transactions do not result in significant change in the shareholders wealth. This justifies the concept of adopting basis of valuation differently for each transaction based on purpose for which it has been undertaken, financial analysis, in case of objective or intangible issues, is not true reflective of the defined objective.

Using an integrated theoretical approach based on resource-based view and managerialism, Seth et al. (2002) analyzed factors that create or destroy value in cross-border M&As, and concluded that the reason for failure could be non alignment of performance motives of each acquisition. Successful mergers develop a clear strategic vision that leads to the creation of significantly higher long-term value. We have to see

whether goals have been achieved and whether the new firm is better positioned for long-term success. Short-term evaluations based on stock price or other narrow financial measures tell us little about the true value of a merger. Often, merger strategies require years of integration and synergies before the benefits are reflected in earnings and stock price. Narrow definitions of merger success and failure must be replaced by broad and complete measures that take into consideration firm's objectives and performance, as well as the economic and industry context. Both financial and nonfinancial measures should be considered. Leading indicators of performance that are predictors of future success must be evaluated in addition to historical results (Epstein, 2005). This defines the relationship of basis of selection of firms with the valuation and performance assessment criteria, to reach to a logical conclusion.

Kiessling et al., (2008) is of the view that performance assessment can be made on tangible as well as intangible factors represented by financial plus nonfinancial outcomes, and a comparative method is more effective in extracting responses than asking respondents directly to provide exact numbers for acquisition performance such as dollar amount of sales, market share, etc. (Lau and Hang-Yue, 2001; Tomaskovic-Devey et al., 1994). The scale of measurement can be adapting preexisting measures (Lau and Hang-Yue, 2001) and integrating them with expert opinion and information gained in pilot-testing (Hambrick and Cannella, 1993). Thus, underlining the need for intangible factors along with the tangibles, as identified at the time of selection and valued at the valuation stage, to measure the outcome of the transactions.

Mayer (2013) by giving new life to the concept “...*that shareholders have too much power...*” has in broader term defined the basis that how companies' performance should be assessed. He is of the view that the main function of companies is to boost shareholder value, is based on a misunderstanding. Companies are not owned by shareholders in the way that ordinary goods are owned. They are artificial persons with a distinct legal identity. Companies are not just devices for lowering transaction costs or bundling contracts together. They are devices for getting groups of people—workers and managers as well as investors—to commit themselves to long-term goals.

This establishes a point of view that performance assessment cannot be simply made by referring to profitability or figures of the financial statements rather on the basis of long-term objectives – subjective as well as objective ones – should be kept in mind. In sum the traditional way of performance measurement need to redefined to make it more goal oriented.

Synthesis:

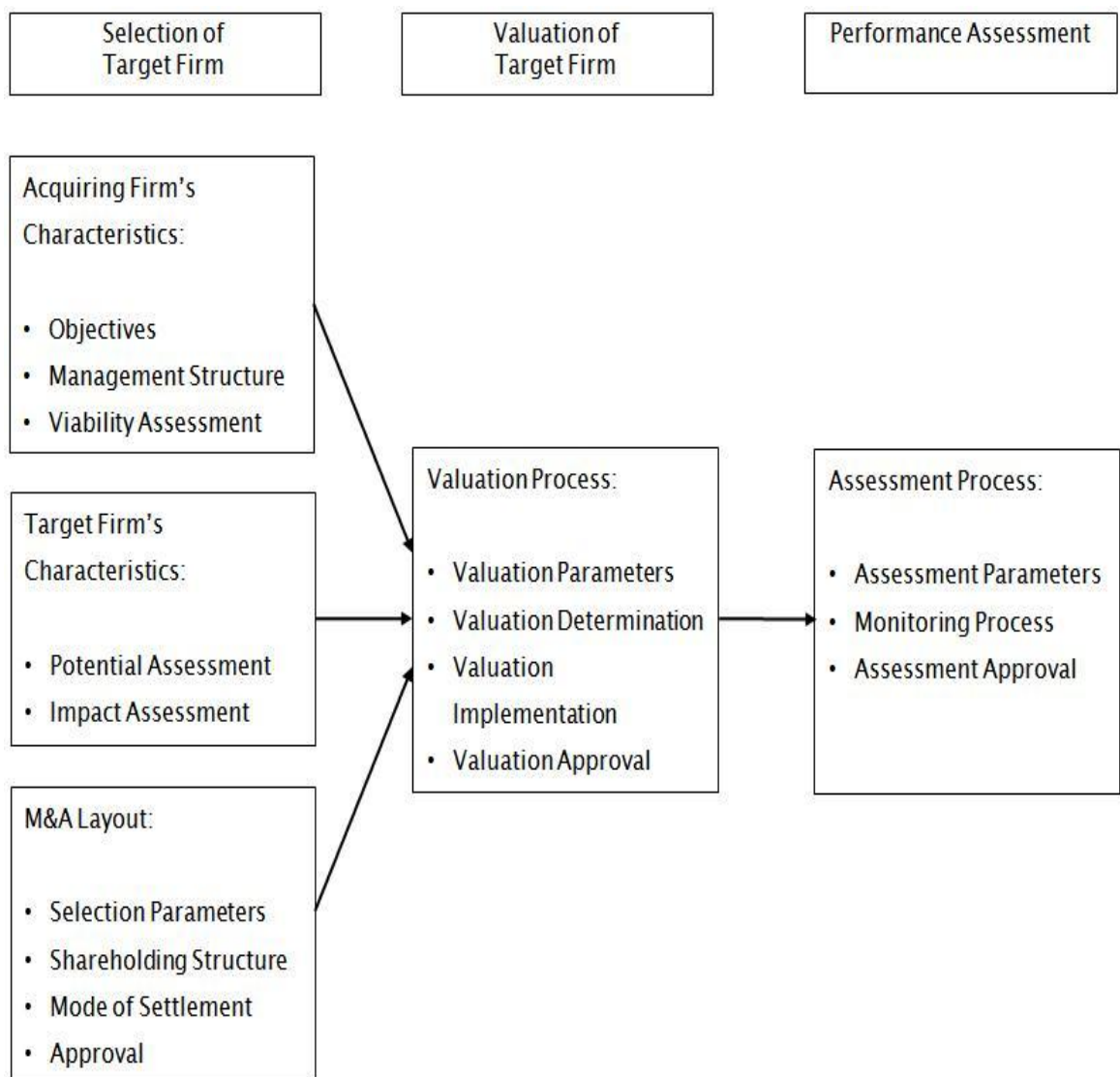
Studies on the subject are focused on the method of performance measurements, based on the financial performance of the firm or value of the listed shares. The methods discussed are based on Cost Savings and Operational Efficiencies (Heywood and McGinty, 2007), Economic Value Addition (based on operating results subject to adjustment of cost of equity) (Yook, 2004), Capital Gains and Productivity (Sung and Gort, 2006) and Return on Assets (Click, 2005).

Methods of assessing performance have, also, been highlighted in the studies, as some mentioned above, but performance assessment in the context of business evaluation, ensuring continuation of the basis adopted for the selection and valuation of the target firm has not been analyzed. The continuation of these fundamentals can provide logical performance assessment criteria aligned with the transaction objective and other related issues, and need to be researched in relation to the outcome of M&A transactions (Epstein, 2005). In this context issues pertaining to subjective performance (intangibles) along with the objective performance have not been dealt in detail. The measurement of either of these factors with reference to the restructuring of organizations, as a part of business evaluation process has not been specifically analyzed, as well. Though, the importance of restructuring approach by way of operational efficiencies has been discussed (Heywood and McGinty, 2007).

4 Research Model

To answer the research questions, a model has been developed based on literature review carried out in the earlier chapter. Its structure has been divided into three phases: the first phase shall analyze the selection of firm process; the implementation of criteria for selection in terms of valuation shall be examined in the second phase; and in the final phase performance measurement process shall be studied. And, finally, how all these in a concerted form impact the outcome of their M&As.

Figure 7: A framework for the impact of Business Evaluation on Merger and Acquisition



Research model, as demonstrated in Figure 7 has been broadly categorized into three sequential stages of merger transactions. The first stage not only helps in selecting a firm but, mainly, lays foundation of the transaction which should be religiously followed, as basis, for the next two

stages. Thus, the road map of the merger is drawn at this stage to ensure planned execution in the second stage and finally the performance of the transaction, by considering the outcome of the first and the second stage as base.

Going into the details, the first stage should define the objective of entering into merger transaction, which would lead to the selection of a firm and all related modalities which may either be tangible or intangible in nature, as well as those related restructuring of the target and acquiring firms. Once the selection process has been approved and completed, then, the implementation phase, mainly covering valuation of the firm, shall be followed to arrive at the transaction's consideration by analyzing and assign value to the factors highlighted at the selection stage. In the final stage performance measurement process shall be analyzed by drawing guidelines from the first stage – what was required to be done – and comparing it with the results of the second stage – what has been attained. At the last stage one could expect some remedial measures to take care of the process improperly followed or not rightly perceived at the earlier stages.

Research model has been conceived with the objective to form basis of the analysis of the case studies undertaken, as discussed later in this paper, to investigate business evaluation process as a reason to the outcome of the M&A transactions.

5 Research Methodology

Research methodology, defines the process that one can follow, to reach to answers to the research questions. Vedic philosophy 5000 years ago described it as unfolding of knowledge as a synthesis of three elements: the process of knowing, the knower, and the known (Gustavsson, 1992). Ghauri and Gronhaug (2002) elaborate it as process of planning, executing and investigating, in systematic manner, to find answer to the research questions, so that it is easier for others to understand and believe in our findings.

Discussion on research methodology, in this study, has been divided into different segments, and for each segment, bearing in mind the sensitivity of the issues, desirable basis have been defined. It lays down a plan for the conduct of the research by elaborating the research process in detail, as well as covered discussion on the technicalities, including criteria developed and adopted for data analysis, required to reach to the conclusion.

5.1 Research Design

Research design is a comprehensive plan to relate the conceptual research questions to relevant and practicable empirical research (Ghauri and Gronhaug, 2005). It plays a prominent role in connecting the subsequent research activities such as data collection and data analysis. Three main classes of research design are indicated, based on problem structure: exploratory research, descriptive research, and casual research (Ghauri and Gronhaug, 2005):

Exploratory research - is appropriate at the early stage to define the real nature of the research problem when it is less understood and perhaps formulate relevant hypotheses for later testing (Chisnall, 2001). The research design should be flexible and sensitive to discover insights not previously recognized (Kinnear and Taylor, 1996). The approaches normally employed in exploratory research may include secondary data sources, observation, interviews with experts and the use of qualitative assessments instead of detail quantitative data.

Descriptive research - is applied when the research problem is structured and well understood (Ghauri and Gronhaug, 2005). Effective descriptive design is noticeable by a clear statement of the decision problems, specific research objectives, detailed information needs and measurement (Kinnear and Taylor, 1996). The cross-sectional design is popular when making use of descriptive research.

Causal research - is designed to gather the evidence of cause-and-effect relationships. It is appropriate to achieve the research objectives: to understand which variables are the causes of

what is being predicted; and to understand the functional relationship between the causal factors and the effect (Kinnear and Taylor, 1996).

Exploratory design, considering the nature of research areas, has been used in this research whereas, while using the secondary data the Descriptive design has been preferred. This is based on the logic followed for the selection of broader parameters needed to explore, and yet to be clearly defined that how the mechanics and related factors shall be worked out. It all depends upon what is available and how it can be correlated with the research objectives.

The qualitative approach has been combined with some quantitative data with an objective to enhance the understanding of the complex phenomenon of evaluation of business. However, one should consider the fact that these two different methods need not necessarily yield absolutely consistent results. Nevertheless, the combination of qualitative, in-depth interviews, combined with some quantitative data, can contribute to a better understanding of different aspects of the same phenomenon (Bryman, 1989); (Van et al., 1990).

5.1.1 Qualitative versus Quantitative Methodologies

Some scholars argue that qualitative methods provide a more subjective and personal understanding of a particular phenomena by getting ‘inside’ it (Kervin, 1992). On the other hand, quantitative research tends to deal less efficiently with the processual aspects and it is difficult to understand organizational change in this respect (Bryman, 1989). However, some scholars favor the use of quantitative research because it offers a scientific emphasis, formal hypotheses and rigorous statistical procedures. Bryman (1988) compares these two types of methodologies according to eight dimensions, listed in Table 2.

Table 2: Quantitative versus Qualitative methods

Dimension	Quantitative	Qualitative
Role of research	Preparatory	Exploratory
Relationship between researcher & subject	Distant	Close
Researcher’s stance vis-à-vis subject	Outsider	Insider
Theory, concepts & research	Confirmation	Emerging
Research strategy	Structured	Unstructured
Scope of findings	Nomothetic (general laws)	Ideographic (Spatio-temporal specific)
Image of social reality	Static and external	Processual and socially Constructed
Nature of data	Hard, reliable	Rich, deep

(Source: Bryman, 1988: p.94)

The above table summarizes the differences between the qualitative and quantitative methodologies. As each methodology has its own particular strengths and weaknesses, a research method should be tailored to suit its research needs (Parkhe, 1993b).

M&A research, in general, points to a strong bias in using either a qualitative or quantitative research design, there appears to be a lack of research undertaking a mixed method approach. This is surprising owing to the multifaceted nature of M&A befits the requirements of mixed methods research. Mixed methods research combine elements of qualitative and quantitative approaches (e.g. use of qualitative and quantitative viewpoints, data collection, analysis, and inference techniques) for the purpose of breadth of understanding or corroboration (Johnson et al., 2007). In social sciences, mixed methods research has emerged as an alternative to the dichotomy of qualitative and quantitative traditions (Teddlie and Tashakkori, 2008).

On methodological standpoint majority of the papers (80.7%) published in top-tier academic management journals on M&A between 1963 and 2009 undertook a quantitative research design, whereas a smaller set of 16.1% of papers adopts a qualitative design. A very small proportion adopted an approach that combines both qualitative and quantitative methods; indeed, where 3.2% of the papers in this sample adopted a mixed methods research design. Whilst the remaining papers include less used methods in the study of M&A - discourse analytical approach - including field experiments (3.2% of the papers) or ethnography (3.2% of the papers). Therefore, certain methods, such as action research, were missing from top-tier academic journals regarding M&A research (Cartwright et al., 2012). This emphasizes on the need to shift from orthodox quantitative method to qualitative methods, reinforced by the quantitative techniques, to make M&A studies more realistic and forward looking.

The combination of qualitative and quantitative data demonstrates a more holistic picture of the research phenomenon, Bryman (1988) mentioned that it was quite unusual to find examples of investigations in which quantitative and qualitative research have a roughly equal role. This study mainly focuses on qualitative approach for primary data collection, while some quantitative analysis has been done by using secondary data; such as Thomson Data bank on M&As, publically available as well as access allowed by the firm under study. This combination of qualitative and quantitative method led to triangulation, hence, enriching the study to its advantages including more valid results, a more holistic portrait of the object under study, the access of different level of reality, greater confidence in research results, inventive tools and methods, and uncovering deviant dimensions (Bryman, 1989; Ghauri and Gronhaug, 2005).

The research methodology can be either based upon quantitative or qualitative paradigms, depending upon the nature of the research. The quantitative methods are more into collecting abundant of data through third sources without direct interaction of the

researches either by way of questionnaires either through email or posts or by sending representatives to get answers to the predefined questions, and consequently, doing empirical analysis of the data by applying different statistical methods to reach to a conclusion. Generally speaking, quantitative methods focus on the strict quantification of observations (data) and on careful control of empirical variables. Also, quantitative research often incorporates large-scale sampling and the use of statistical procedures to examine group means and variances (Ponterotto and Ingrid, 1999). Such studies stress the measurement and analysis of causal or parallel relationships between variables (Denzin and Yvonna, 2000a).

In contrast, this research is based on the analysis of premise that how the outcome of merger or acquisition is influenced by the process followed by the acquiring firm for the evaluation of the target firm. This requires insight from the persons who were involved in such transactions, having direct experience of the acquisition or merger process. Considering the sensitivity of the subject, which are exploratory in nature, positivistic and post positivist methods which are based on empirical analysis and fall primarily in the domain of quantitative analysis are not strategically relevant. Hence, the study focuses on qualitative paradigms and approaches, designed to describe and interpret the experiences of research participants in a context-specific setting (Denzin and Yvonna, 2000a). Such findings are generally presented in everyday language and often incorporate participants' own words to describe a psychological event, experience, or phenomenon (Taylor and Bogdan, 1998). Information is gathered by having personal interaction with the participants by divulging in detail that how things happened, and gathering from such deliberations information on the issues directly or indirectly connected with the research areas.

5.2 Methodology

The research focuses on qualitative paradigms and approaches to describe and interpret the experiences of research participants in a context-specific setting (Denzin and Yvonna, 2000a). The qualitative research can be broadly grouped into Interpretive or Constructive paradigm and Critical paradigm, application of the either of these to the study can be analyzed in the context of their characteristics as enlisted below:

5.2.1 Constructivist or Interpretivist Paradigm

Constructivist (or interpretivist) paradigm can be perceived as an alternative to the "received view" or positivist paradigm. In contrast to positivism, constructivist position maintains that meaning is hidden and must be brought to the surface through deep

reflection (Schwandt, 2000; Sciarra, 1999). This reflection can be ensured through interactive researcher-participant dialogue. Thus a distinguishing characteristic of constructivism is the centrality of the interaction between the investigator and the object of investigation. The researcher and participants jointly create (co-construct) findings from their interactive dialogue and interpretation.

The qualitative research and the seeds of constructivism-interpretivism can be traced back to Kant's (1781/1966) Critique of Pure Reason. According to Hamilton (1994), Kant's position was that "human perception derives not only from evidence of the senses but also from the mental apparatus that serves to organize the incoming sense impressions" and that "human claims about nature cannot be independent of inside-the-head processes of the knowing subject". He highlights that one cannot separate out an objective reality from the person (research participant) who is experiencing, processing, and labeling the reality (Sciarra, 1999). This ontological distinction is critical to the basic difference between positivism and post positivism (and chiefly quantitative methods) and constructivism-interpretivism (chiefly qualitative methods).

Constructivist (or interpretivist) paradigm is based on concept that something hidden must be brought to the surface through interactive dialogue with the related person. This very much relates to the interviews conducted during the case studies to know the background of the transactions and sort of processes that were followed. Such interactive dialogue and interpretation, thus, helped to co-construct the findings of each case study.

5.2.2 Critical or Ideological Paradigm

The origin of critical theory is most often traced to the Institute of Social Research at the University of Frankfurt in the 1920s (Creswell, 1998). Pioneering critical theorists at the Frankfurt School included Max Horkheimer, Theodor Adorno, and Herbert Marcuse. These scholars, influenced by the German philosophical tradition of Marx, Kant, Hegel, and Weber, were of the view that "injustice and subjugation shape the lived world" (Kincheloe and McLaren, 2000).

Like constructivists, criticalists advocate a reality that is constructed within a social-historical context. However, more so than constructivists, they conceptualize reality and events within power relations, and they use their research inquiry to help emancipate oppressed groups. Criticalists emphasize a dialectic stance on the researcher-participant interaction that aims to empower participants to work toward egalitarian and democratic change and transformation (Tolman and Mary, 2001). Denzin (1994) has noted that "*An emancipator principle drives such research, which is committed to engaging oppressed*

groups in collective, democratic theorizing about their common and different perceptions of oppression and privilege” (p.509). The critical-ideological perspective is primarily idiographic and emic.

The impact and influence of the researcher's proactive values is observed in critical theory. Hence, the feminist, critical race, and queer theory conceptualizations are examples of related ideological positions included under the rubric of critical theory (Denzin and Yvonna, 2000a; Denzin and Yvonna, 2000b). The critical-ideological paradigm (like constructivism-interpretivism) often forms the conceptual base for qualitative multicultural research.

Hence, Constructivist or Interpretivist against Critical-Ideological paradigm is more relevant to the research area, as the later primarily focuses on the social and ideological issues aimed at change and transformation of oppressed group, which is not close to the objective of knowing that how outcome of event or transactions is effected by set of related factors or processes, by getting feedback from those who were part of the process of initiating and implementing it.

5.3 Approaches

Different qualitative research approaches have been coined over a period of time, which have been formulated by combining components of different research paradigms. These include Grounded Theory (Strauss and Juliet, 1998), Comprehensive Process Analysis (Hardy et al., 1998), Consensual Qualitative Research (Hill et al., 1997), Phenomenological (Giorgi, 1985) and others not so frequently referred. The highlights of the approaches prepared by Endacott (2005), after Creswell, (1998) and Hek (2002), have been reproduced in following Table 3:

Table 3: Highlights of Different Research Approaches

Approach	Focus
Ethnography	<ul style="list-style-type: none"> · Understanding cultural rules · Observer role includes some participation in the situation · Observation is a key data collection method, with informal and formal interviewing
Phenomenology	<ul style="list-style-type: none"> · Exploring a phenomenon in depth, may include ‘lived experience’
Grounded theory	<ul style="list-style-type: none"> · Developing theory inductively from the data · Relies on iterative process of data collection and data analysis · Generating hypotheses which are then tested through data collection
Action research	<ul style="list-style-type: none"> · Attempts to bring about change in practice during the research · Attempts to influence the real world through a spiral process of change and evaluation
Feminist research	<ul style="list-style-type: none"> · Non-threatening and non-hierarchical relationship between researcher and participants · Two-fold goal: <ul style="list-style-type: none"> · to raise consciousness of women’s issues · to empower women as a result of the research

(Source: Endacott, 2005; Creswell, 1998; and Hek, 2002)

Of the above mentioned approaches Grounded Theory and Phenomenology are generally used for such studies, the former was originated with positivist and post-positivist components (Glaser and Strauss, 2006) but later on researchers adapted their own version of approach by moving more closely towards constructivist-leaning (Charmaz, 2000). It can, therefore, be labeled as combining postpositivist and constructivist paradigms (Haverkamp et al., 2005). However, phenomenology is commonly used for developing qualitative approach. It is a narration of an essence of experience or phenomena where the grounded theory results in a visual model or theory (Creswell, 1998).

5.3.1 Phenomenology

"Phenomenology is the study of the way that consciousness perceives objects, consciousness is a variable" Wilson (1965, p.105) in "Beyond the Outsider". Phenomenology concept was basically initiated by Brentano, (1960) and was later on reviewed by Husserl (1970) who modified the phenomenology into his theory called "Transcendental Phenomenology" and wanted to make philosophy an exact and autonomous discipline which might serve as a foundation for all types of knowledge. Husserl divided the whole process of phenomenological understanding in following three stages of development:

The very first stage "the natural standpoint of the world about me" is the stage wherein the objects of the world are looked upon as they are without any reflection on our part, i.e., in their natural existence as they are found in "a space-time" bound world. According to Husserl, there is a ring of co-present margin around the actual field of perception. What is actually perceived and what is co-present, determinate is surrounded by a "dimly apprehended depth or fringe of indeterminate reality." With the illuminating focus of attention trying to pierce further, "the circle of determinancy extends ever farther, and eventually so far that the connection with the actual field of perception as the immediate environment is established." But even then "empty mist of dim indeterminacy" is still there and the "zone of indeterminacy is infinite". The second stage of development is his searching analysis of phenomenological philosophy. In this stage of eidetic reduction an attempt is made to understand the basic essence, form or structure (Eidos) of the given thing in a reflective, selective manner, by not paying any attention to or taking any interest in the particular details of the thing under observation. It is not the cube, but the "cubeness" which is reflected upon by the grasping mind by holding in abeyance the material details of the perceived object or objects.

The third and the final stage of transcendental reduction, the process of complete reduction, of uncovering all the layers of appearances and arriving at the pure consciousness of an individual knower or experience as the real starting point for

philosophy. The process of "suspension" or "bracketing" is complete and one reaches "what is the stream of pure experiences of a single experiencing being." "The world has become merely a phenomenon for my transcendently reduced consciousness" Or as White, (1955) puts it, "It is the end product of the most stringent reduction of all."

The whole Husserlian thesis is further explained by the contributor to the "phenomenology" article in "The Concise Encyclopedia of Western Philosophy and Philosophers" by Mayo (1960 p.32) as follows:

"The 'thesis' of existence has simply been 'put out of play,' and the world must now be placed in quotation marks: it is the correlate of my meaningful experience, but it is no longer regarded as independently real. It is 'bracketed' world." With this transcendental understanding of the Being of an experiencing event or an object, the naive attitude in which the world was taken as a pregiven realm is abandoned. All the factors or elements of the natural attitude are preserved, but in Husserlian terminology, "we are pleased to put them in brackets." To know the world transcendently is to know it "as it was in the first place."

Phenomenology, to conclude, is a research method that allows the most comprehensive understanding of the lived experience (Oiler, 1982). It seeks to "uncover the meaning of humanly lived phenomena through the analysis of subjects' descriptions" (Parse et al., 1985). In phenomenological research, it is important that the researcher clearly delineate his or her own assumptions, preconceptions, and presuppositions to avoid applying objective evidence in the current literature to the nature of the phenomenon (Ray, 1990). This process, known as *bracketing* (Arslanian-Engoren and Scott, 2003) holds in abeyance the researcher's preconceptions and native assumptions until thematic interpretation is completed (Ray, 1990). Bracketing is performed to fully understand the meaning of the phenomenon to the individual involved in the experience (Oiler, 1982; Parse et al., 1985). This approach coincides very well with the desired objectives to be achieved by conducting semi-structured interviews to have insight of the experience of those involved in the process of M&A to reach to a conclusion. Thus, gives a valid rationale for following the approach in this study.

Phenomenology has become increasingly popular as a research perspective to study experience in the humanistic and social science disciplines, It can also be seen in professional contexts of management studies (Gibson & Hanes, 2003) along with the psychology (Giorgi, 1975,1997), nursing (Annells, 1996; Koch, 1995, 1996), and education (Van, 1990, 2002). This suit well with the methodology adopted for the study,

based on the interviews of the persons who had experienced the transactions and related processes so undertaken, to reach to a conclusion.

5.3.2 Constructivism-interpretivism and Phenomenology

Constructivism-interpretivism and Phenomenology cannot be separated from each other as Heidegger (1965) claims “*that the meaning of phenomenological description lies in interpretation*” (p.61) i.e. that the business of phenomenology is the business of interpreting. He recalls phenomenology, for this reason, “*hermeneutic in the primordial significant of this word*” (p.62). To attain valid knowledge of things, through a phenomenological foundation one has to look at the issues with exactness of sciences. This demands critical justification as well as a claim that its structure not only forbids putting the life-world a priori into question, but it turns phenomenology into a reactionary movement against philosophy and science through the construction of a priori and through the dogmatic claim that it is unchallengeable in principle and beyond improvement (Seigfried,1976). Phenomenology approach under the umbrella of Constructivism-Interpretivism methodology is best suitable combination for this study as it leads to exploring the hidden issues by letting those involved to freely tell the procedures that were followed.

From a research philosophical perspective, the M&A research is over-whelmingly ‘realist’ (Burrell and Morgan, 1979) in its approach, with 80.7% of work being quantitative, and 88.6% of the qualitative work is undertaken in a realist paradigm (Vaara, 2000). Only 11.4% of the qualitative work takes an interpretive or subjective orientation. Jørgensen et al. (2012) has highlighted extant research, undertaking greater ontological and epistemological pluralism in the study of M&A. According to him Extant research has played a significant role in understanding that how communicative processes shape inter-organizational encounters e.g. with regard to the legitimacy, success or failure of diverse mergers, acquisitions and alliances particularly with reference to cross-border M&As, investigating integration difficulties and processes of identification and legitimation.

Combination of both Constructivism-Interpretivism and Phenomenology has been applied to the study as it meets the requirement of the methodology and approach desired to address the research questions.

5.4 Data Collection

Both secondary and primary data have been used in the study. The secondary data was required for the selection of the cases as well as for conducting analysis of available facts and figures of the merger transactions. Such data, therefore, being supplementary in nature, was corroborated with the primary data collected through interviews, forming the basis for the research. The significance of both types of data for conducting research is narrated below:

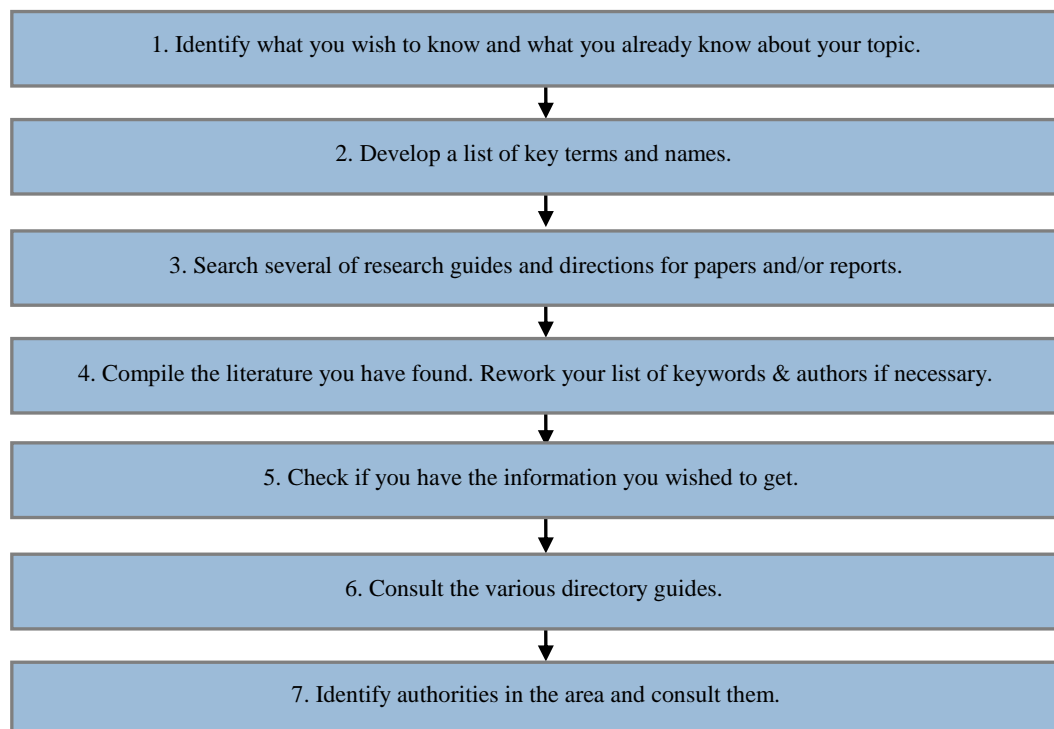
Secondary data, refers to the information already available through different sources, the user of the data has to clearly define the objective for which information is desired and the conclusion to be drawn there from. Apart from providing help in finding information it also helps in developing understanding and explanation of the research problem, as we are aware that the research is continuous process and we get more information the more we are in a position to refine our perception about the issue involved.

Secondary data help researchers in the following manner (Ghauri and Gronhaug, 2005):

- i) Answering the research questions or solving research problems;
- ii) Deciding about the research methods or suggesting methods;
- iii) Providing benchmarking measures.

The guideline for secondary data has been graphically explained in Figure 8:

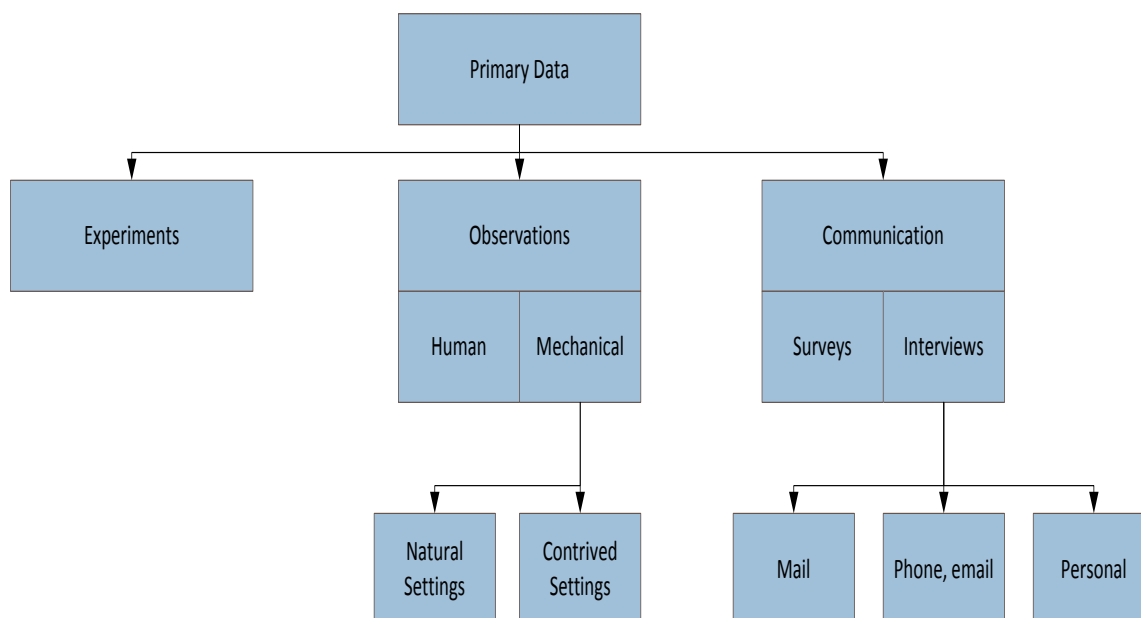
Figure 8: Guidelines for Secondary Data



(Source: Ghauri and Gronhaug, 2005, p.96)

Primary data is collected if secondary data is not available or not adequate to answer the research questions. In some cases the data required is so precise or specific that exclusive exercise to collect the same has to be carried out. Such data can be collected by way of observations, experiments, surveys (questionnaire) and interviews, as illustrated in Figure 9:

Figure 9: Primary Data Collection Methods



(Source: Ghauri and Gronhaug, 2005, p.99)

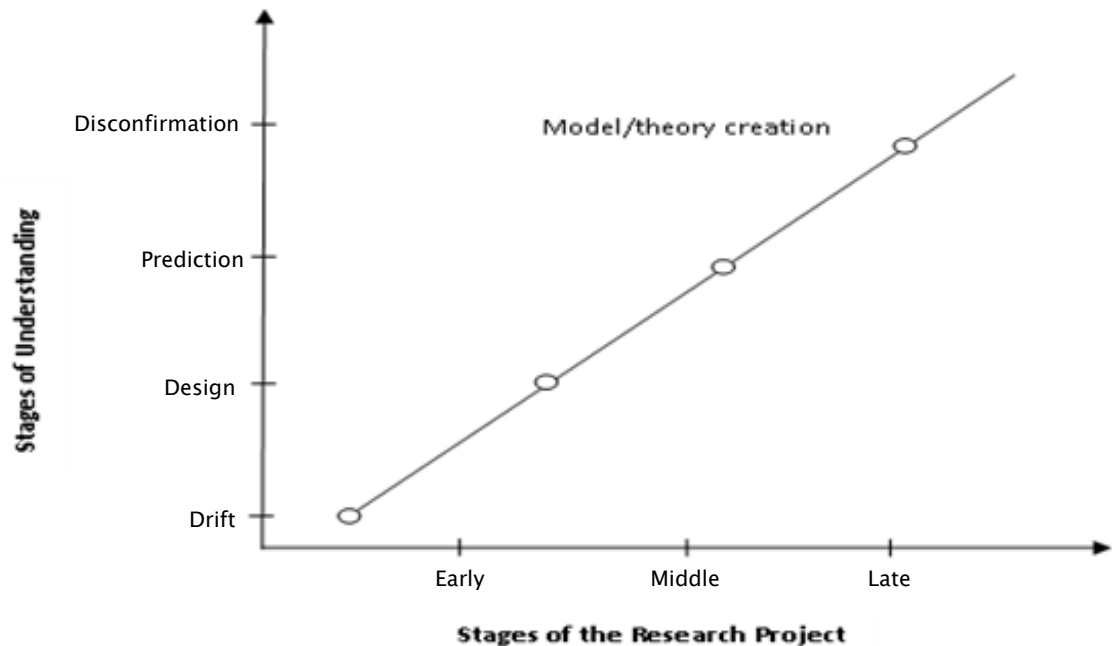
5.5 Case Study Methodology

Case studies are often applied to understanding the areas of organizational functioning that are not well documented and which are difficult to investigate through distant contact with organizations (Yin, 2003). It is expected to provide insights into an issue or a particular management situation (Ghauri, 2004). Case studies have been applied in many studies (Hamel 1991; Inkpen, 1998; Ghauri et al., 2008; Yan and Gray, 1994) to provide a contextual understanding of the alliance learning issues.

This research is related to the assessment of interlinked processes pertaining to a management function and how they influence the consequences. Accordingly, it requires insight of the situations accruing at the time of happening of a particular event by interacting with those involved in the processes. With this backdrop, comparative Case Study methodology has been applied in this research, whereby studying different organization on the same research areas, with more or less the same questions and approach.

The study mechanism has been developed on process/cycle suggested by Bonoma (1985), as given in Figure 10.

Figure 10: A Process Model for Case Research



(Source: Bonoma, 1985 p. 205; Ghauri, 2004, p.112)

Brief explanation of the figure 10 is given as follows:

Drift Stage - is trying to learn the area of research, concepts and terminology in the field. This stage widens the perspective of the researcher and results in modification of the basic research question (Maanen, 1983).

Design Stage - helps in assessing and major research areas, as suggested by the drift stage. It facilitates the conceptualization of the research areas/problems.

Prediction Stage - compiling more cases with the purpose of drawing conclusions, the researcher, as a result, can develop some tentative explanation.

Disconfirmation Stage – refers to further testing/analysis of the results suggested by the prediction stage, by applying results to other or border set of cases (Ghauri and Gronhaug, 2005). The above stages do not represent some rigid hierarchy but an alternate evolution towards understanding (Bonoma, 1985).

Qualitative researchers have to be sensitive (reflexive) to the ways in which the researcher and the research process have shaped the data, including the role of prior assumptions and experience (Mays and Pope, 2000). Towards this end the case studies were conducted on one by one basis, so the experience of the completed one helped the study of the subsequent one or improvement in the one already conducted on the basis of experience subsequently gained.

5.6 Case Selection

Appropriate selection of cases ensures the possibility of legitimate generalization and theory development (Silverman, 2000). Following methods for the selection of cases can be used within the qualitative framework:

Representative sampling - selection of cases that contain related characteristics in wider form or one can say that the sample must be representative or typical (Silverman, 2000; Stake, 1995; Merkens, 2004).

Purposive or Theoretical sampling - selecting cases, where the subjects under study are most likely to occur and that are relevant to one's theoretical position or research questions. This, however, does not mean selecting cases that are likely to support the theory. So called "deviant" cases that present negative instances as defined by the theory can be selected to provide a crucial test of the theory (Silverman, 2000; Manning, 1982).

Learning Maximization Sampling - selecting cases together can maximize the learning opportunities that can be achieved within the available resources (Stake, 1995).

While selecting cases care was exercised to select cases which were more representative, relevant and significant thoroughly covering the research areas. The Representative Sampling method, hence, was considered more relevant. Where, the Learning Maximization Sampling method was adopted for Pilot Case Study, conducted to refine the concepts planned for the study.

How many cases should be included in a study? The answer to this question is very difficult, many times only one case is enough (Mintzberg, 1979; Yin, 2003, 2008). It is the research problem and the research objectives that influence the number and choice of cases to be studied.

Case Study can either be based on "Single Case" or "Multiple Case", the selection depends very much upon the nature of the research questions. Single cases are appropriate when a particular case is a critical case and we want to use it to explain or question an established theory. For example, in Marschan-Piekkari, (1998) researchers studied regional control in headquarter-subsubsidiary and inter-subsubsidiary relationships in a single, Finnish multinational corporation.

Also in a situation when a single case is an extreme or a unique case; for example, particular organizations may be of interest because they represent "outstanding successes" or "notable failures" (Patton, 1990). Finally, a single case design is appropriate when a case is revelatory. Single case design can also be used in a pilot study or an exploratory study that serves as a first step to a later, more comprehensive study (Ghauri and Gronhaug, 2005; Yin, 2003).

The research areas of this study demanded Multiple Case study, as Single Case study might have help in reaching conclusion on the basis of particular case having its own peculiarities and uniqueness, it could not be of help in this study where the research areas need to be analyzed on a wider spectrum, demanding multiple cases operating in different geographical and other operating limitations. The same questions have been studied in a number of organizations and comparison has been carried out, in a systematic manner, to draw conclusions. This has led to explore different dimensions of the research issues or to examine different levels of research variables. The case study design had been flexible and changed, modified or revised during the study with proper justification. (Harman, 2002; Basu et al., 2008; Aybar and Ficici, 2009; Chakrabarti et al., 2008)

Representation of different regions has been a serious drawback in most of the studies carried out. They are, generally, based on the case studies and statistics of the developed countries and majority of them are focused on US publically traded firms (Haleblian et al., 2009). Attempt, therefore, was made to select cases from developing or emerging economies. Unfortunately, except the pilot study, no case from the developing economies was accessible, because of lack of information available as well as non-willingness of the firms to share such information with any third person. To make the study more realistic, those sectors of economy were selected which were frequently subject to such transactions, and usually involved complexities of restructuring of the firms – acquiring as well as target – and had intangible assets worth as significant part of the transactions.

Cases were selected from Technology and Telecommunication sector, based upon premise that during the past two decades, mergers in this sector have defined the overall merger landscape. These have been the largest, priciest and possibly the most exciting mergers of recent times and defined the merger wave of the late 20th century. Collectively, in the past decade these mergers were valued well over \$1.5 trillion, according to McKinsey & Company's analysis written by Jean-Christophe Lebraud and Peter Karlströmer. The organizational processes and their outcome might differ substantially from one industry to another, study, hence, has been focused on a single industry (Alegre et al., 2012). Similarly, the findings based on M&As in developed countries may not be applicable to the case of emerging economies as these economies differ from developed countries in terms of institutions, levels of economic development and marketization (Liu and Zou, 2008), which justifies the cases selection from developed countries only, based in Europe.

Selection of the sector also aligns well with the essence of this research as M&As results in the telecommunications sector, generally, have not been positive. Ferguson (2004), based on US telecommunications industry, analyzed that the phone companies' mergers reduced overall productivity growth, worsened recession, and impeded progress. Trillas, (2002) studied the

acquisitions of the twelve largest telecom companies in Europe and found that acquisitions were followed with an insignificant impact on shareholder value on bidding firms, concluding that such acquisitions were undertaken for empire-building purposes. Similarly, Majumdar et al. found that the numerous local exchange mergers in the United States lead to declines in operating efficiencies (2010a), and in jobs and real wages (2010b).

The selection process was based on first selecting the sector which should be focused for the selection of cases and then identifying the transactions, having reasonable value and carried out in the past two to three years. Initially transactions pertaining to different regions of the world were shortlisted but later on due to poor response from emerging economies and developing world, transactions undertaken in the developed countries were considered. Thomson data base was used for the selection of data as well as the cases.

At least six firms from different countries were short listed, which were examined in detail on case to case basis by using the following criteria:

- i) Significance of the transaction in terms of its value
- ii) Case is well known and has been widely reported in media, and varied opinion of experts are available
- iii) Access to documents and managers involved in the transaction
- iv) Detailed data is available
- v) Related record is accessible and available
- vi) Access to the players is possible
- vii) Transactions have taken place at least three years earlier, so that considerable period to assess their outcome is available.

Finally, four cases were selected: two from United Kingdom, one acquired a firm in France and the other one two firms simultaneously, as a part of one transaction, in Italy and in Spain; one from Switzerland, from semiconductor industry; and the last one from Netherlands, also from semiconductor industry. While selecting firms, no discrimination was made as to government or non government owned firms, as it was not that relevant in view of the research area.

5.7 Pilot Study

As a part of pilot study two cases having different features were studied. The first case was related to cross-border acquisition, handling the process, particularly the research area, in a professional manner - thus ending up in a success story. The other one was a local (Pakistan) merger where one firm acquired the assets and liabilities of the other firm but the transaction was initiated and

evaluated on the basis of personal assessment and not by banking upon future business model - resulting in failure.

5.8 Interviews

Elaborated in detail, as above, the study mainly focuses on qualitative paradigms and approaches to explore and interpret the experiences of persons involved in the cases in a context-specific setting (Denzin and Yvonna, 2000a). Such information is gathered by having personal interaction with the participants by divulging in detail that how things happened, and gathering from such deliberations information on the issues directly or indirectly connected with the research areas (Taylor and Bogdan, 1998). Hence, interviews of key persons involved in the transactions, under study, were conducted.

Interviews, as frequently discussed in literature, are mainly of three types: structure, unstructured and semi structured. The semi structured interview base arise from the sequence in which subject matter is addressed from any inadvertent omission of questions, from unrepresentative sampling and from an uncontrolled over or under-representation of subgroups among our respondents” (Ghuri and Gronhaug, 2005).

Three ethical principles underpinning data collection process: autonomy, anonymity/confidentiality, and informed consent (Endacott, 2007), were ensured by first obtaining the approval from ethical committee of the institution and secondly by getting the consent, laying down the terms in general, from the interviewee (Annane et al., 2004 and Lemaire, 2004). As a part of the ethics approval, obtained Kings College, the names of the interviewees as well as of their firms have not been disclosed in the thesis.

Primarily interview of senior member of the management team who were part of the merger process decision making, from selection of the firm (target firm) till the implementation, was sought. In case different information was provided by the interviewers on the same subject, it was reconfirmed on the basis of details available from the secondary data/documents.

5.8.1 Selection of Respondents

Selection of respondents in qualitative studies is based on theory and decisions about sample either made prior to data collection (purposive sampling) or during data collection, as the theory emerges (theoretical sampling), useful example of theoretical sampling can be found in Ball and Cox (2003). Sample size in qualitative research is based on saturation or ceasing data collection when data categories have been exhausted. Those to be interviewed were decided at the initial meeting but the list was planned to be extended as the details were revealed during the interview process.

Phenomenology requires the seeking out of individuals who have experienced the 'phenomenon' (criterion based sampling) (Creswell, 1998), hence, those who were directly engaged in the transaction from the first till last stage were selected for the interview and collection of information.

The list of respondents was guided by the following factors:

- i) Managers who had been involved in the evaluation process for a particular transaction
- ii) Managers who could provide a holistic view of the pre and post merger scenario
- iii) Accessibility

To ensure holistic view, effort was made to select individuals from different level of firms engaged in different functional areas, rather in the same function area, such as finance. Managers involved in the decision making, implementation and subsequent performance evaluation were considered, to have their perception of the issue as well as to corroborate the information extracted from some other person. But on the contrary access to limited number of persons in an organization was allowed, which, though, has not affected the quality of the research significantly.

5.8.2 Interview Process

The interviews were semi structured or so called clinical focused interviews with a set of pre-determined open ended questions but not limited to them (Hopf, 2004). The interview was divided into two parts, first the interviewer was asked to tell the entire merger story covering events before and after the merger. After that the discussion was made with reference to the interview guide prepared for the purpose. This use of guide followed Hopf's, (2004) and Merton et al. (1956) criteria for semi structured interviews:

- i) Scope: the spectrum of the problem addressed in the interview should not be too narrow. The interviewer should have maximum opportunity to express their opinion. This concerns both theoretically anticipated and non anticipated reactions.
- ii) Specificity: the topics and questions that occur in the interview should be dealt with in a specified way, referring to specific subjects and not expressing global assessments.
- iii) Depth: interviewees should be supported in presenting the affective, cognitive and value-related meaning which particular situations have for them.

Following key decisions underpinning data collection through interview process (Endacott, 2005) were addressed in the following manner:

- i) structure for the interviews;
- ii) timing;
- iii) number of participants; and
- iv) location;

Semi structured interviews were supported by the guidelines prepared at the pre-interview stage. The timings of the interview were predetermined and the cases selected were those which had been executed and their outcome was apparent in clear terms. The number of participants was decided with the management at the initial meeting, subject to amendments desired while the interview process was started and more information was desired. Since the study was mainly focused on the processes of the acquiring firm, the location was its head office where the relevant persons and record was available.

In general, the rules applied to quantitative studies in order to achieve validity and reliability, are not appropriate for qualitative research. Guba and Lincoln's (1989) three criteria for qualitative studies most commonly applied, was followed:

- i) credibility — return data to the subjects for verification;
- ii) transferability — of the theory, rather than 'sample to population' generalisability; and
- iii) dependability — auditability, use of a 'decision trail'.

The credibility was confirmed by selecting the right person to interview, he was asked to sign ethics form prescribed by the institution's ethics committee. The interviews were tape recorded with the permission of the interviewee by seeking his consent in writing. The text of the interview was prepared and sent to the interviewee for the confirmation of the contents. Disagreement, if any, was resolved through discussion and bringing clarity on the issue. Dilley (2000) suggests that interview should start with the collection of background information about research participants and about the context in which the interviews take place. Before the start of the interviews of each case study, informal discussion was held with the top management to have overview of the merger transaction and description of related important events. This helped to contextualize the interview questions (Hopf, 2004).

Dilley's (2000) recommendation about listening a "multiple voices" will be part of "self-reflexive interviewing" process. These voices include:

- i) Listening to what the interviewer is saying and observing how he or she is saying it.
- ii) Comparing what the interviewer says to what is known from previous interviews or background studies.
- iii) Comparing what the person says to the questions on the rest of the protocol.
- iv) Offering information to prompt reflection, clarification or further explication.

In addition to the above, the trustworthiness of the data was also confirmed by adopting triangulation, to the extent possible – substantiating the information gathered through the interview process with the documents to which access was provided by the acquiring firm, and also be referring to the information publically available. Thorough data analysis also helped in highlighting and resolving contradictions observed during the interview (Endacott, 2005).

5.8.3 Interview Guide Development

The interview guide is more relevant in case of structured interviews. Though, in this case, provided guidance to ensure all research areas had been touched upon. It was therefore, crucial in nature and its preparation required a lot of care. This guide helped not in asking direct questions on the issues rather views expressed by the interviewees were guided to cover all the related matters, telling the whole story on their own while answering open ended questions. Accordingly, contents of Table 4 should not be wrongly interpreted as a set of questions asked as a part of the interview rather it served as interviewer's tick list to vouch the completeness of the interviews. This list, also, helped in carrying out analysis of the information gathered during the interviews process to answer the research questions.

A preliminary interview guide was prepared to do pilot case studies, and was refined on the basis experience gained. This ensured that the entire process was carried out in productive manner, covering following aspects of the research pertaining to pre and post merger scenarios:

- a) Pre-requisites - list of information required before contacting the concerned firm's representatives.
- b) Introductory Meeting - with the firm's representative to finalize the details and modalities of conducting interviews as well as access to the related record.
- c) Whom to interview - the list of persons finalized in the Introductory Meeting with the representative of the firm. So the persons from the acquirer as well as from target firm who remained all along in all phases of merger were relevant.

- d) Review of initial data / information - details about the transaction and its background, available on record, before going for the interviews.
- e) Study of the documents - details of the transaction, before going for interview, related documents to be examined to know detailed background of the case.
- f) Conduct of Interview - formal conduct of interview while keeping the background of the transaction, as gained through above steps, in mind. The purpose of the interview was to get the background and details of the merger transactions covering pre and post merger period.
- g) Interview Parameters - semi structured interview was performed, therefore, list of issues involved, on the basis of the research areas was prepared to make the interviews meaningful.
- h) Follow up Interview - to give finishing touches to the finding of the interview conducted:

After compilation of the first interview results, where there was a need to sought information on some more areas or on the areas left out, appointment was obtained from the concerned person by explaining the reasons requiring further discussion.

The interview guide used as well as for data analysis has been defined in Table 4:

Table 4: Interview Guide and Data Analysis Criteria

SELECTION OF TARGET FIRMS	
ACQUIRING FIRM'S CHARACTERISTICS	
i) Objectives	<ul style="list-style-type: none"> What was the objective and motive behind the merger, whether it was clearly defined?
ii) Management Structure	<ul style="list-style-type: none"> What was the composition of the board of directors/sponsors, and pattern of shareholding?
iii) Viability Assessment	<ul style="list-style-type: none"> Whether the merger requirement was initiated on the basis of detailed report, highlighting the potential benefits?
TARGET FIRM'S CHARACTERISTICS	
i) Potential Assessment	<ul style="list-style-type: none"> Whether the selection of the firm was based on well defined criteria by preparing detailed working and evolving list of prospective target firms?
ii) Impact Assessment	<ul style="list-style-type: none"> Whether initial assessment of impact of merger of selected entity/entities covered other related parties?
MERGER & ACQUISITION LAYOUT	
i) Selection Parameters	<ul style="list-style-type: none"> Whether brief layout of the expected merged firms, highlighting post merger eventualities, was drawn? Whether relevant, existing or likely to exist, subjective and objective factors were highlighted and considered while making selection?
ii) Shareholding Structure	<ul style="list-style-type: none"> Whether the shareholding structure in the post merger or acquisition period was planned?
iii) Mode of Settlement	<ul style="list-style-type: none"> Whether the nature, mode and basis of settlement of merger transaction were discussed in detail, and planned?
iv) Approval	<ul style="list-style-type: none"> Whether all the material shortcomings regarding the firm identification process were documented in the proposal, and presented to the board of directors/committee for approval? Whether the reservations of the members of the board or committee while granting approval were adequately documented and addressed?

VALUATION OF TARGET FIRM	
VALUATION PROCESS	
i) Valuation Parameters	<ul style="list-style-type: none"> • Whether the valuation process had accounted for, in detail, the impact of/on the transaction on competitors, market and other stakeholders? • Whether the valuation basis accounted for post merger combined scenario, after considering restructuring on location, division, product, process and technical knowhow, covering in detail technical and financial issues? • Whether the non financial or subjective (Intangible) matters were identified and their impact was evaluated? • Whether feedback of the target firm on the valuation criteria, process and results was obtained?
ii) Valuation Determination	<ul style="list-style-type: none"> • Whether the offer price was determined by following one of the established methods and by justifying the logic in detail? • Whether valuation carried out by independent professionals? • Whether the valuation was carried out on more than one basis, to justify the value so arrived? • Whether in case of discounted cash flow method, the applied discount rate was realistically adjusted according to the transaction's requirement? • Whether the risk factors, as a part of discount rate, as stated above have been logically defined? • Whether the valuation carried out was corroborated?
iii) Valuation Implementation	<ul style="list-style-type: none"> • Whether on the basis of significantly different negotiated value, viability of the transaction was revisited? • Whether other terms of the transaction were not deviated while finalizing the transaction?
iv) Valuation Approval	<ul style="list-style-type: none"> • Whether the approval of the valuation by the senior management and board of directors/competent authority was made, and their comments and concerns were thoroughly addressed?
PERFORMANCE ASSESSMENT	
ASSESSMENT PROCESS	
i) Assessment Parameters	<ul style="list-style-type: none"> • Whether the performance measurement criteria were in compliance with the basis used for selection of the firm and its valuation? • Whether the assessment process accounted for in detail the restructuring/reorganization plan considered at the time of selection and valuation of target firm? • Whether, while carrying out performance measurement, subjective along with the objective matters were considered?
ii) Monitoring Process	<ul style="list-style-type: none"> • Whether the assessment process was formally defined and duly approved? • Whether the shortcomings pertaining to the earlier processes of selection of the firm and its valuation were highlighted and remedial measures were taken? • Whether the issues pertaining to the execution of the transaction were evaluated?
iii) Assessment Approval	<ul style="list-style-type: none"> • Whether the performance assessment carried out periodically was approved by the board/committee and follow up of remedial action was monitored?

5.9 Data Analysis

Data analysis is a complex part of the qualitative research process, which has received less theoretical attention (Savage, 2000). In research studies there is often a need of useful guidelines on how to analyze the substantial amount of qualitative data, but faced lack of clear guidance for

using particular analytic methods (Hunter et al., 2002; McCance et al., 2001). Most available guidelines or checklists related to qualitative studies are critical appraisal tools or focus on reporting qualitative research such as; the CASP (Public Health Resource Unit, 2006), COREQ (Tong et al., 2007), Malterud's guidelines (2001), and McMaster Critical Review Form (Letts et al., 2007). They do not provide researchers with clear instructions on how to analyze, interpret and summarize qualitative data. Because of complexities of qualitative data analysis any description of the practical aspects of the analysis process runs the risk of oversimplification (Dierckx et al., 2012). There is no one right way to work with qualitative data, essentially qualitative data analysis is a process best 'learnt by doing' (Froggatt, 2001). It requires expertise in reading, thinking, imagining, conceiving, conceptualizing, connecting, condensing, categorizing and thereby creating a new storyline (Jennings, 2007). Extensive preparation is required to open the researcher's mind to lay the groundwork for one to be creative (Hunter et al., 2002). In qualitative research it is essential that we know which techniques or methods can be used to guide and support this challenging intellectual process (Jennings, 2007; Hunter et al., 2002).

Interpreting and analyzing qualitative data cannot happen by merely telling convincing stories, Silverman's (1989), in qualitative research trustworthiness and authenticity rather than reliability are the main issues (Sinkovics et al. 2008). The idea is to present an "authentic" understanding of people's experience. This means not just understanding the point of view of the individuals and groups being studied; in addition, data has to be interpreted against the background of the context in which they are produced (Hammersley and Atkinson, 1983).

"The most serious and central difficulty in the use of qualitative data is that the method of data analysis is not well formulated . . . the analyst faced with a bank of data has very few guidelines for protection against self-delusion, let alone the presentation of unreliable or invalid conclusion to scientific or policy-making decisions. How can we be sure that an "earthy", "undeniable", "serendipitous" finding is not, in fact, wrong?" (Miles, 1979, p.596)

Based on the literature on qualitative data analysis following six major problems are faced by researchers (Dierckx et al., 2012):

- i) Over-reliance on qualitative software packages
- ii) Word overload due to line-by-line approaches
- iii) Coding using a preconceived framework
- iv) Difficulty of retaining the integrity of each respondent's Story
- v) Full potential of data is not exploited
- vi) Data analysis as individual process

According to Miles and Huberman (1994) qualitative data analysis is choreographed not lifted off the shelf. Some methodologies have specific processes for data analysis like Arslanian-Engoren and Scott (2003) for one approach used in phenomenology. Common to all approaches is the process of developing codes and categories. General categories (or themes) may be developed from the data, which are then broken down into more explicit codes. Alternatively, line-by-line analysis of transcripts is used to develop codes, which are then built up into categories/themes. Another approach is to use a predetermined framework for codes, for example Carper's (1978) four ways of knowing or Benner's (1984) novice to expert framework.

Like all such method the analysis has been carried out by defining the factors involved in each research question, as guided by the literature review. These factors were further classified into sub factors for the purpose of preparing interview guidelines as well as parameters for the data analysis. Weightage to all such sub-factors was assigned on the basis of the information gathered during interview, and, to the extent possible, by referring to the information gathered otherwise. Accumulation of data at different level provided analysis basis for each factor, the respective research question, and finally the framework.

Inter-weaving data collection and data analysis right from the first case/interview was adopted in this research, which was the best policy (Miles and Huberman, 1994). This allowed theory to develop alongside the growing volume of data, thus allowing formulation and reformulation of the research problem at the same time. This led to new questions and new data collection, and there could be no definite phase of data analysis (Ghauri and Gronhaug, 2005; Miles and Huberman, 1994).

Preferably, a second case was not started unless the data collected through the first case was analyzed. Data analysis along with the data collection process helped in improving the quality of analysis. This overlapping of the two stages allowed the analysis to guide subsequent data collection, either by way of theoretical sampling or by amending interview guide, to ensure emerging areas were explored. This interplay between data collection and analysis was also essential to identify the point at which data saturation occurred, Endacott (2005). In this manner the process of selection of the interviewees, interview guidelines and interview process were improved which helped not only in enhancing the effectiveness of the subsequent case studies but also the earlier ones by seeking clarity on issues at a later stage.

The first step of analysis, hence, was to construct a case description and explanation. This helped to understand "how" things developed and "why" things occurred the way they did. Then, a map was constructed to locate different elements and variables. This finally led us to build a theory or a model, i.e. how the variables should be connected together and how they influenced each other

(Miles and Huberman, 1994). Step by step advancement along the “ladder of abstraction” was ensured. It was started by trying to code and categorize text, then identify trends and establish findings. Finally, we integrated the data into an explanatory framework (Ghauri, 2004; Gherardi and Turner, 1987).

Another approach used was based on the strategy suggested by Miles and Huberman, (1994); “stacking comparable cases”. According to this strategy, series of the cases was written, using more or less standard variables. Then matrices and other displays were used to analyze each case in depth, and explore the interrelationship between different factors. Once each case was well understood, the case-level display was “stack” in a “meta-matrix”, which was then further condensed, permitting systematic comparison (Ghauri, 2004). Eisenhardt (1989) called this strategy a “replication strategy”. The techniques used have been summarized in the Table 5.

Table 5: Case Study Analysis

Techniques for case Study analysis	Explanation
Chronologies	Narratives of the events that took place, organized by date
Coding	Sorting the data according to concepts and themes
Clustering	Categorizing cases according to common characteristics
Matrices	Explaining the interrelationship between Identified factors
Decision tree modeling	Grounding a description of real-world decision and actions coherently by using multiple cases
Pattern matching	Comparison between a predicted and an empirically based pattern

(Source: Ghauri, 2004, p.115)

With the help of mixture of the above mentioned strategies, recommended by Ghauri and Firth (2009), conclusion drawn was compared with how the things actually happened, to find out the reasons for significant variance, if any. This helped in corroborating the results as well as in identifying areas for further research.

5.10 Analysis Criteria

The research requires, as illustrated in the research model, study of how different component of business evaluation – selection of firm, valuation of firm and performance assessment - influence each other to impact the outcome of a merger transaction. Thus, demanding analysis of each component to determine its strength by going through the process in-built in it and then its impact on the subsequent component, and finally on the merger outcome. The factors of each component and related variables are defined with reference to the literature review undertaken for the purpose of this study.

The criteria used for the analysis of the processes of each component are elaborated in the following text, which are applied to analyze each case study as well as comparative case analysis.

The analysis is structured on scoring criteria, allocating equal scores to the base of each sub component. Against the maximum scores, the marks attained by each factor reckoning its relevance to the study under consideration, is assigned. The aggregate of the scores attained against sub category and category against the maximum marks shows the reliance placed by the management on such issues while handling such transaction. The comparison of the aggregate marks attained with the maximum marks leads to draw conclusion.

Factors used for the analysis have been illustrated below, “2” maximum marks have been defined against each sub-factor, those sub-factors which have complied “weak” are given nil marks, “Average” are given “1” and “Robust” are given “2” marks. Total of all sub-factors are added to arrive at the rating of factors and factors are added to reach to the score of each component. The analysis highlighted the compliance level ensured in different areas of the research by the management of the firms selected for case studies.

Separately for each case, on the basis of scores attained by each component against the maximum scores allocated, the effectiveness of the process followed for the components has been ranked as: “weak” for non-effective; “average”; for effective to some an extent; and “robust” for very effective. This categorization has been rationalized on the basis of percentage of the score attained against the maximum scores, up to 50% has been ranked as “weak”, from 51% to 75% has been grouped as “average” and above 75% has been grouped as “robust”. These limits have been determined on the basis of experience gained as to level of effectiveness of the processes, during the case studies.

Cases, individually as well as comparatively, have been analyzed on component and sub component basis (refer research model, page 110), that how such components in aggregate impact the outcome of merger or acquisition - how business selection or business valuation processes impact the outcome of merger? As well as, how factors of one component impact the other component factors – how “defining transaction objective” influence the process of “defining the valuation criteria”.

To sum up, the above process as guided by Dierckx (2012) was adopted for undertaking analysis:

- i) Every interview was meticulously transcribed verbatim immediately by the researcher, the transcript was thoroughly read different times in order to familiarize with the data and getting a sense of the interview as a whole.
- ii) Then, the essence of the interviewee’s story in answer to the research question was articulated by way of narrative report, guided by the question: ‘What are the essential characteristics of the interviewee’s story that may contribute to a better insight in the research topic?’

- iii) From narrative report to conceptual interview scheme was derived to provide concepts that were relevant to get insight into the research topic.
- iv) The appropriateness of the conceptual interview schemes was verified through iterative dialogue with the interview data.
- v) Forward-backward movement between within-case and across-case analysis was carried out to facilitate the identification of common themes, concepts or hypotheses (Swanson-Kauffman and Schonwarld, 1988).
- vi) Based on the conceptual interview schemes, a common list of concepts was drawn up without imposing a hierarchical order.
- vii) The actual coding process starts by reading each interview again with the list of concepts at hand.
- viii) Every code was analyzed through a careful exploration and study of all citations associated with the code.
- ix) Integrated all these concepts in a meaningful conceptual framework or story-line in response to the research question.
- x) Based on the conceptual framework and the in-depth analysis of concepts, systematically and carefully described the essential findings in answer to the research question.

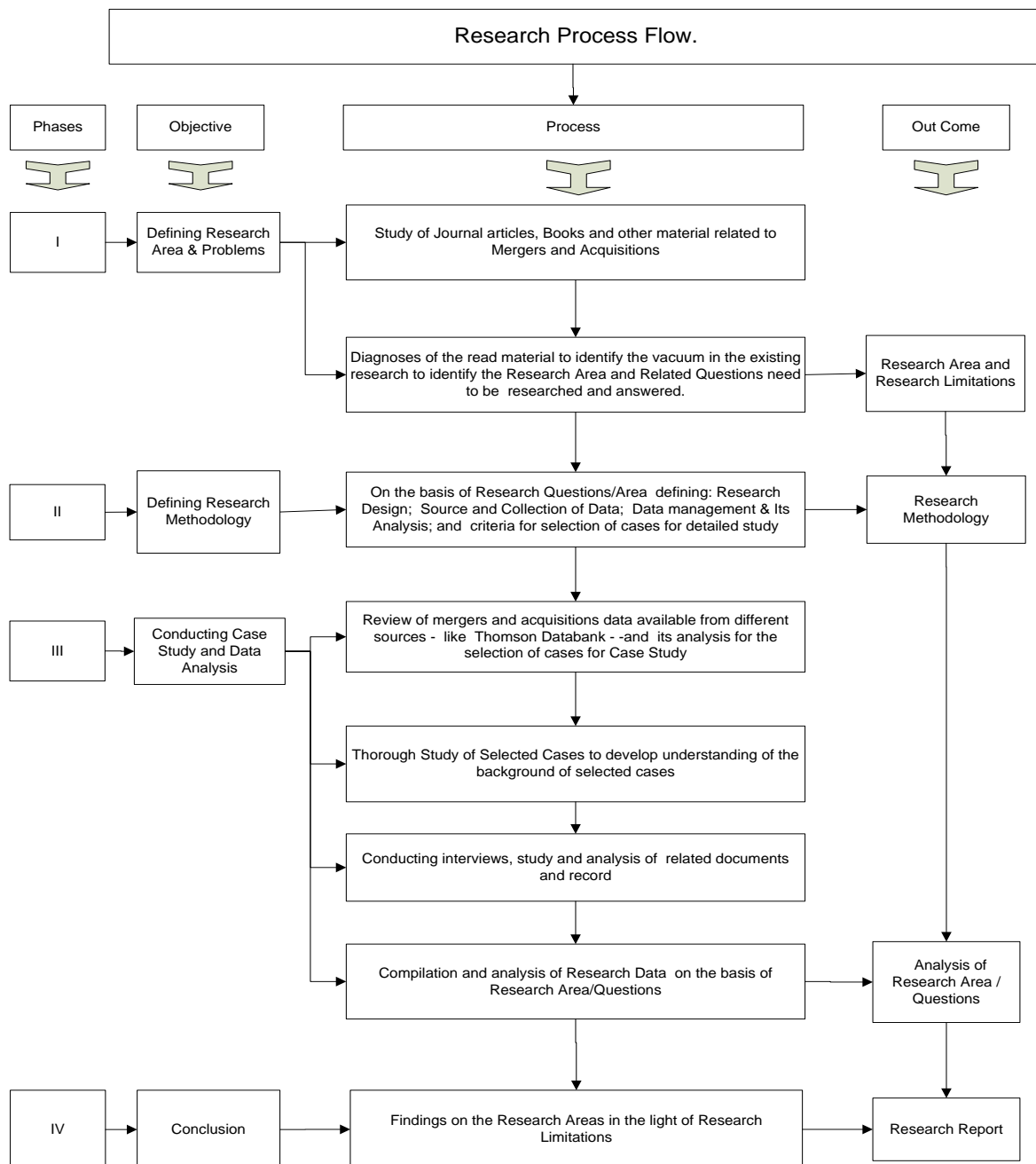
To conclude, the strength of the analysis method adopted lies in following features:

- i) Case-oriented approach characterized by balancing between within case and cross-case analysis (e.g. Ayres et al., 2003; Sandelowski, 1995, 1996). To understand and treat each sampling unit as one case to make sense of the data collected for each individual sampling unit;
- ii) Forward – backward dynamics using the constant comparative method (e.g. Froggatt, 2001; Glaser and Strauss, 2006; Sandelowski, 1995, 1996). From the start till the end of the process, the analytical work is characterized by iterative processes of analysis by digging data deeper and deeper in the research phenomenon.
- iii) Use of data generated sensitizing concepts; thorough and extensive coding process to ‘first look at own data in order to see what he/she should look for in the data’ (Sandelowski, 1995).
- iv) Focus on people-ware rather than software (e.g. Jennings, 2007; Hunter et al., 2002; Sandelowski, 1995). By focusing on a thorough preparation of the coding work, prevents from relying too quickly and too heavily on qualitative software packages, thereby getting lost in a meaningless mass of codes.

5.11 Research Process Flow

Research itself is a process, defining different activities to be covered over a period of time or one can say it is a road map to complete a research study. Insight of the research subject is gained gradually, as the process progresses, and each activity contributes to understanding of the subject. Therefore, its conduct in a systematic manner on activity/stage basis, defined in a flow, is its prerequisite (Ghauri and Firth, 2009). The research process flow adopted has been detailed in the Figure 11.

Figure 11: Research Process Flow Chart



Broadly, the process has been divided into three main segments; objective, processes and outcome. Each of these segments has passed through four different phases starting from: defining the research area; evolving the methodology to be adopted for conducting research; conducting case studies and data analysis; and finally drawing the conclusion.

6 Case Studies

As detailed in the research methodology the case studies are, primarily, based upon interviews of key person/persons involved in the selected transactions. Also the documents related to the transactions, where possible, were examined to develop better understanding of the process followed as well as to substantiate the information gathered through interview process. Information publically available from the websites, and other sources, of the acquirer as well as of the target firm was also referred and used for the purpose.

6.1 Case 1: Acquisition of ITCo by TEL Group

6.1.1 Overview

The case study is related to an acquisition of 100% ownership of an information technology professional services firm, referred in this write up as “ITCo” acquired by a telecom group, mentioned as “TEL Group”, to maintain the confidentiality desired by the TEL Group.

6.1.2 The Acquiring Firm

TEL Group had four customer-focused lines of business, Tel Services, TEL Group Retail, TEL Group Wholesale and Open Reach. TEL Group Retail, TEL Group Wholesale and Open Reach were operating mainly within the UK, whereas TEL Group was the largest communication services provider to the residential and business markets by supplying a wide range of communication products and services including voice, data, internet and multimedia services and offering a comprehensive range of managed and packaged communication solutions.

Tel Services, to which this acquisition transaction was related, provided a range of products and services including communications, network IT and consultancy services to address the needs of major corporations, governments and multi-site global organizations.

The strategy of the TEL Group was defined as:

- i) pursue profitable growth in new wave markets
- ii) defend our traditional business
- iii) transform our networks, systems and services for the twenty-first century
- iv) create long-term partnerships with our customers

(Annual Report, for the year ended 2007/2008)

TEL Group served customers in more than 170 countries and with an IP network connected over 1,300 cities across the globe, with an objective to meet the demand for IT infrastructure and solutions among global organizations and to satisfy the rapid expansion of broadband in the UK. Therefore, the group services were designed to help customers to make the most of the convergence of networks and services, mobile and fixed products, media and communications.

Since globalization changed the economics of business, TEL Group operated globally and delivered locally to most of the world's largest multinational corporations, including most of the biggest banks, top stock exchanges, leading broker-dealers and top global corporations in industries such as pharmaceuticals, manufacturing, logistics and consumer packaged goods. Its customers included many of the world's most respected brands.

In France TEL Group provided managed network IT services with strong capabilities in ICT infrastructures as well as associated professional services. Its network comprised 16 points of presence covering all major French cities and 4 hosting centers in Paris and Lyon. It was supplemented by local partnerships to ensure national coverage.

a) Management Structure of Acquiring Firm

i) Board Composition and Role

The Board of TEL Group was made up of the part-time Chairman, the Chief Executive, five other executive directors and nine non-executive directors. All of the non-executive directors continued to meet the criteria for independence, set out in the Combined Code. The Board, hence, comprised a majority of independent non-executive directors. The Board's principal focus was the overall strategic direction, development and control of the group. It also had oversight and control of the group's operating and financial performance and reviewed the risk register.

ii) Non Executive Directors

The non-executive directors provided a strong and independent support to the Board and brought experience and judgment, gained at the most senior levels of international business operations and strategy, finance, marketing, technology, communications and political and international affairs. Non-executive directors were initially appointed for three years.

iii) Board Committees

The Committees had collective responsibility; for running the group's business end-to-end by developing the group's strategy and budget for Board approval,

recommend to the Board, the group's capital expenditure and investments budgets, monitors the financial, operational and customer quality of service performance of the whole group. Within the group's corporate governance framework, approved by the Board, the Operating Committee was empowered to approve capital expenditure, disposals of fixed assets, the making of investments by the group and divestments.

b) Business Strategy of Acquiring Firm

TEL Group was engaged in a process of radical transformation, from a fixed-line business to a software-driven global communications services firm. Towards this objective, the group had made substantial investment. Increasingly, communication infrastructures were no longer just the physical network; what were becoming more important were the layers of software that made it possible to manage the network without the need for physical intervention.

The management of the group claimed that they were one of the world's first communication companies who achieved the integration of its networks, IT, processes and technical product design. This enabled them to create end-to-end processes, remove unnecessary complexity and bring TEL Group people closer to their customers.

Towards this objective, in April 2007, the group announced a new structure that would deliver faster, more resilient and cost effective services to customers, wherever they would be. The structure was based around two new internal functional units: TEL Group Design and TEL Group Operate. TEL Group Design had been responsible for the development and deployment of the platforms, systems and processes, which to support the group services. Whereas, TEL Group Operate had been responsible for their operations.

M&A was the main vehicle to transform from a traditional to a new business model. The total consideration for acquisitions in 2008 was around £500 million, goodwill arising on acquisitions was around £300 million including the acquisition of ITCo.

6.1.3 The Target Firm

ITCo was a consulting group specialized in the implementation of innovating solutions by focusing on information and communication technologies, and a leading provider on the security market. The combination of technological solutions and cross-functional offers; with dedicated business lines, particularly in the finance and telecom sectors, allowed ITCo to offer its customers high value added services.

6.1.4 Transaction Details

a) Acquisition

The acquisition process was spread over a period of 2 to 3 years and was carried out in phases. It started with the acquisition of minority shares, enabling TEL Group to have a better insight of the capabilities of the firm than any outsider. This prompted into acquisition of another 68.6% shares converting it from minority to the majority shareholder. Lately, the remaining 2.19% shares were acquired from the minority shareholder to embark upon the objective of restructuring ITCO to make it viable part of the Tel Services, providing IT related services to the clients. This objective was implemented by converting the firm into a non-listed firm and by changing its name.

The details of the acquisition phases, making TEL Group from minority to exclusive owner of ITCO, have been briefly enumerated below:

- i) **Acquisition of Majority Shares** – ITCO, was primarily owned by four founding shareholders Mr. B, Mr. P, Mr. A and Mr. C having 68.6% shareholding in the firm, listed on stock exchange. TEL Group acquired their shares at a price of EURO 5.27 per share. This offer valued the entire outstanding ITCO issued share capital at approximately EURO 68.5 million.

As a consideration, TEL Group issued its shares in exchange for 5,566,022 shares, representing 42.9% of ITCO issued share capital held by three founding shareholders. The remaining 3,341,244 shares of the block were acquired for cash. In addition, before closing of the acquisition, ITCO distributed EURO 5 million of cash to its current shareholders by way of a special dividend, equating to EURO 0.385 per share.

The Board of Directors of ITCO, having considered the premium amount, recommended acceptance to the offer as being favorable to the minority shareholders. This led to the acquisition by TEL Group, on 15 January 2008, majority stake of 67.72% of the share capital and 67.64% of voting rights in ITCO, from its principal shareholders. In accordance with French regulations, the price of 5.27 Euros per share offered by TEL Group plc corresponded to that paid to the principal shareholders in ITCO for the acquisition of their majority stake. Including the exceptional dividend of 0.38 Euros paid on 11 January 2008, it represented an offer premium of approximately 38% over the average price over the three months preceding the official announcement of an exclusivity agreement on 10 October 2007, and thus allowed minority shareholders to get benefit from the control premium paid by TEL

GROUP for the acquisition of a 67.7% stake in ITC's share capital. The payment for shares subscribed to the offer was entirely paid in cash.

- ii) **Increases in share holding in target firm** - TEL Group further increased their shareholding of ITC during March 2008, through the acquisition of TC Fund's entire holding of 746,040 shares in ITC at a price of €5.27 per share in cash, resulting in payment of approximately €1.83m. As a result of this acquisition, TEL Group owned 12,791,476 shares of ITC corresponding to 97.25% of the issued share capital of ITC and 97.14 % of the voting rights.

b) Restructuring

The restructuring of ITC started from the date of acquisition of its majority shares by TEL Group on the basis planned as a part of acquisition strategy. This was caused by way of reduction in number of employees and overheads. These steps undertaken in the year 2008 did not bear fruits, and it led to major restructuring in the year 2009, which continued till 2010. With this the financial results of the services group started improving.

This subsequent restructuring process brought TEL Group's Managed Services and Professional Services activities in France into a single corporate firm. This embodied the merger of TEL Group firm and the transfer of certain business divisions from TEL Group France into ITC. The contemplated restructuring was intended to make the related business in France a more focused proposition to its customers and employees by managing the affairs more efficiently. This enhanced the value of ITC and made it profitable compared to negative results of yesteryears.

The restructuring, hence, involved:

- i) contribution of the GP Services division by TEL Group France to ITC
- ii) contribution of the AH division by TEL Group France to ITC
- iii) merger of TEL Group IC, a 100% subsidiary of TEL Group France, into ITC

The newly enlarged ITC had 2,300 employees and was renamed as TEL Services. As a result of the merger and contributions, Tel Services focused on the selling and delivery of IT Managed and Professional Services while TEL Group France focused on the selling and delivery of network services.

This transformation process was the result of approval of the respective works councils and Board of Directors of TEL Group France, TEL Group and ITC. The valuations of the different assets contributed through the merger and the contributions were reviewed

by Cabinet Finexi and Demerger and Merger Designated Auditors, who delivered their reports on the valuations and fairness of the parity ratio in January 2009.

Based on the valuation of the assets, the contributions resulted in the issuance of 4,676,956 new shares of ITCO in favor of TEL Group France, the gross assets transferred under the contribution of the GPS division amount to 22,4 million (Euros), and of the AH division amounted to 29,5 million (Euros).

The merger of TEL Group IC into ITCO was valued at a ratio of 1 TEL Group IC share for approximately 1.26 ITCO shares, resulting in the issuance of 11,178,738 new shares of ITCO in favor of TEL Group France as sole shareholder of TEL Group IC. The gross assets involved in the merger amounted to 132, 2 million (Euros). This caused issuance in favor of TEL Group France of a total of 15,855,694 new shares of ITCO, raising the total number of its issued shares to 29,009,539.

The scheme was approved by the shareholders of TEL Group IC, TEL Group France and ITCO, through extraordinary general meetings of the shareholders and AMF (French corporate regulatory authority).

6.1.5 Findings

Interviews of Director of Corporate Finance at TEL Group in UK and a colleague from the Group's M&A legal department, the key persons involved in the acquisition transaction, were conducted. The details of the interviews arranged according to components of research area are given below:

a) Selection Of Target Firm

This deliberates upon the process followed for the selection of the target firm, and encompasses: defining the objectives of acquisition; selection criteria to be followed; professionalism deployed; and approvals hierarchy involved ensuring the presence of checks and balances.

The pattern of shareholding of TEL Group was quite diversified, comprising of the private shareholders, institutional investors and employees of the group. In the year 2007, only less than 0.1% of the number of holdings held 74% of the shareholding of the group, meaning 212 shareholders (out of 8640) were holding 5 million and above holding. The next category was 358 shareholders, holding from 1 million to less than 5 million shares, were having 282 million shares which were 9.4% of total shares. Where, the rest of 16.6% shareholding was represented by 99.9% of number of holding. Hence, the power to manage the affairs of the firm was in the hands of big groups.

The board of directors comprised of a chairman, six executive and nine non executive directors. The board, though, was not directly involved in M&A transactions of the size of ITCo, but it was indirectly represented through the committees. One can say that non executive directors, who were appointed by the board on the merit of their specialization in different sectors of the business, were having significant weightage in making acquisition decisions, which ensured contribution by the people having diversified background.

Majority of the directors of the board, in this case, were non executive directors, the possibility, therefore, of taking more risk prone decision demanding immediate returns could not be ruled out. On the other side, the benefit of professional feedback, based on rich experience in the diversified areas, on issues that a transaction may encounter could not be totally overruled, as well.

One can, thus, say that the structure of the board and their appointed committees were aligned with the management's "profitability" objective for undertaking all the M&As transactions, *"....those projects which were related to their business and could generate money were considered by them..."* says Director Corporate Finance.

TEL Group had a relatively small business in France as compared to the other large European countries in which it was operating; hence, the ambition was to expand the scale of business to make it more competitive as compared to the others in the industry. To attain this objective the choice was either to grow organically, a time consuming process, or to pursue for acquisitions. The French management team identified a number of target companies that had the capabilities to develop their business further. The board approved the strategy and a number of prospective acquisitions cases were identified. *"The idea was to upscale the business from about nine hundred staff to about two and a half thousand by combining two acquisitions with the existing business. This would then position TEL Group as one of the top ten suppliers of IT services in France, from a position of only being, in the top 50 previously"*, says Director Corporate Finance.

The acquisition was, in fact, initiated by the CEO, Tel France who went to the CEO of the Group's international division and presented his case about the challenges being faced by his business: what he intended to do; what was the capex budget; what was the opex requirement; how the business can be transformed by acquiring another business; and what options in this regard were available. The management also looked into the option of building or expanding their existing business, to the desired level, and how much it would cost. Evaluation of both options revealed that it would pursue acquisitions.

There were a couple of other companies considered for acquisition from an original list of about 8 companies of the right sort of size, the right sort of capabilities with reasonable operating margins. Out of these 3 were shortlisted and TEL Group acquired 2 of them.

The rationale, according to management, of the acquisition was not from where they could get better results because they were neither investors nor venture capitalists. The transaction was driven by the strategy, and to execute the strategy and achieve an adequate return, excess of Group's cost of capital was involved. So, the short listing was grounded on what were the 10 capabilities that they were looking for and which one was stronger than the other one.

"... these guys are particularly strong in one area, these guys aren't so strong here but strong elsewhere and you know sort of the half moon and full moon sort of analysis. You can't really put numbers around that but you can sort of have a feel of what is the best kind of fit. You look at that fit then you look at what it would take to integrate this with the business. You might look at the brand, the position it has in the market place. How to pay value for that?", says Director Corporate Finance.

This selection process was taken to the operating committee for the approval. The approval from the board as to the expansion strategy through acquisition was obtained, on the basis of which entities were shortlisted. The shortlisted entities were evaluated by the French team and the corporate finance department reviewed the strategic and financial aspects of the transaction. *"...here corporate finance is a central team reporting to the Group Finance Director and looking after the group's cash, we come in and look at the strategy and say ok how much should we be prepared to pay to achieve the strategy"*, says Director Corporate Finance.

The evaluated cases were taken to the concerned committee, which was mandated by the board, to grant approval. Accordingly, acquisition of a firm called Services Co, in about the middle of 2007, took place. And then they acquired ITCo business with the deal announced in December 2007.

The acquisition transaction was, as mentioned earlier, initiated to improve the foot holding of the Group in France, as in the pre-acquisition period the Group was ranked very low in the market. In a broader sense comparison with the competitors was carried out but it was not in the form of some critical analysis based on some study or research, telling how the acquisition results/performance would be influenced by them.

Since, the basis of acquisition was strategic in nature, increase the group's presence in France, therefore at the time of selection other intangible factors were not considered in detail and accordingly, specific approval of such factors was considered unwarranted.

Likewise, at the time of identification or selection of a firm, it was not considered worthwhile to discuss the form of consideration of transaction, as there was no such pertinent factor that could have pushed the team and the committee to discuss and decide about it at that juncture. The Group had ample funds to finance the transaction internally. Although, such factors do, normally, matter while deciding the funding of a transaction.

No tangible shortcoming in identification procedure, according to the management, existed and accordingly none was discussed in the committee meeting. The committee believed that the process of selection was, quite, based upon checks and balances requiring long deliberation by the concerned person and then by the committee members. On account of this reason the team was able to take out two out of eight listed companies to the committee for approval. This entire course of action was based on necessary paper work, identifying the reasons to go for it. Nevertheless, it was not based on some third party report, which they believed would be unnecessary. The proposal, submitted to the committee, contained enough material to seek approval without asking for any other document or explanation, hence there were no reservations expressed by the committee that needed to be documented and clarified through additional work.

b) Valuation of Target Firm

The valuation criterion was logically based upon two main factors: strategic value of having greater presence in France to be in the top in the sector; and benefit from integration in the post acquisition scenario of the target firm with the existing business in France.

Thus, *“cash flow based valuation was undertaken by the management to ensure that taking into account the planned restructuring, whether a typical market premium of 30% (based upon the Group's assessment) over market value was justified”*, says Director Corporate Finance.

The Group's approach was to ensure that in all transactions the value to the Group of any deal is well in excess of the cost of that transaction, even if it includes a control premium.

The first phase involved the reorganization of the firm with the objective of cutting costs and improving operational efficiency. In the first year after acquisition the TEL Services, part of the group to which this acquisition pertained, suffered a loss where the rest of the

group showed good results. As a remedy, some additional restructuring was planned by merging another firm in ITCo along with divisions of two other group companies, with an objective of improving not only the viability of the target firm but also of the services group as a whole. This phase of restructuring, though, was not a part of the initial plan. This second phase caused positive results of the services group for the 2010 (Annual Audited Reports for years from 2008 to 2010), however cannot be correlated to the specific acquisition under consideration, as the transaction was quite small to find place in the annual report. Further, financials of ITCo, separately, were not available.

“I would say that we are pretty disciplined about the valuation process, and the Group in the distant past has not been good about buying companies for strategic value or intangible reasons.... but that’s a hard lesson that we have learnt”, says Director Corporate Finance. In the past, number of acquisitions and their disposals took place, primarily because of acquisitions evaluated on intangibles factors. The management was of the view that such experience made TEL Group more seasoned in the evaluation process as compared to the other companies.

Three types of due diligence - financial, legal and commercial - were initiated by the group as a part of evaluation process. The financial was generally done by the finance team at head office; in case of ITCo they joined hands with the CFO TEL France. Whereas, in other large transactions one of the big 4 accountancy firms was also involved to test the processes, sustainability, review current trading and identify all of the problems that one could have had faced. They came across the issues indicating weak areas that needed to be accommodated in the Discounted Cash Flows (DCF) to reflect in the value of the acquisition.

On the legal side they used legal experts to advise them on reviewing key contracts with suppliers, long-term customer etc., and to seek advice on structuring the purchase agreement. In case of public takeover, as in this case, all related documentation.

Commercial side was done in-house; they believed that they had required such expertise from outside that there would have been no justification left for them to remain in the business. Understanding the commercial logic of a transaction and how to diligence it, was very much part of their core expertise and shouldn’t be done by outsiders. The strategy and commercial teams were the people who identified the ITCo opportunity, and came in the first place to give their recommendations. They gave a green signal to run the finance function with primary focus on integration, requiring reduction in overheads and number of employees, and larger presence in the French market.

Thus, based on three wide streams that came together at the end of the diligence process, they decided to go ahead. Further, it defined what level of protection was required in the contract to cover the findings? Did they need to reduce the price? Did they need to increase the price (that doesn't happen very often)? Finally, that was the end of the point, where they went back to the committee with all the final results.

The valuation was slightly easier in this case because ITCo was established by four founders. They controlled a large number of shares and listed it on the French stock exchange, and the price was available in the market. In order to obtain control they had to pay a market standard premium of about 30%. They evaluated this value with reference to the cash flow the business was expected to generate in future. On top of it, consideration was also given to the planned restructuring as well as generation of enough synergy value by combining with the TEL Group. Hence, the valuation justification was based not only on the cash generation from ITCo alone, rather, as well on the results from the planned restructuring that would take place. Accordingly, what they expected was that the value for them should be several times higher than the price they pay, which gave them sort of margin of safety, as they did not want to play where such margin was not available.

“If a price of 70 million Euros is paid for ITCo then If the value (returns), after putting all those synergies and integration costs, was 70 million Euros we wouldn't go ahead, if it was 75 million or 80 million we probably still wouldn't have gone for it, so it had to be something meaningful above the price. The synergies, of course, follow the strategy to reach scale that should be operating after taking out cost, removing duplication - where you've got 2 sets of accounts payable people, 2 finance teams, 2 HR teams - and integrate them to a much larger revenue generating business with a much smaller central cost base”, says Director Corporate Finance.

The minority shareholders, a hedge fund, were also bought out eventually after several months, at the same price as was paid to the original shareholders. According to them, this substantiated the validity of valuation criteria used by them, claimed the management.

Since, the TEL Group paid a premium to the market price to compensate for the management takeover as well the DCF method therefore was used by them to justify the price. *“DCF is really the most important thing because in order to get to that sort of value uplift”,* says Director Corporate Finance. Depending totally on DCF, they thought, was difficult and for that, one needed to understand the value of the synergies, which was not simple to follow and to make others, like committee members, to understand. To

make it simple, as a rule of thumb, their committee in addition to DCF would want to know that if they were paying 8 times of operating profit or what other transactions of the same nature and around that level had done. Any significant variation from the estimation criteria of the Group would lead the committee to seek clarification from M&A team that why they were paying more or less.

Other than the future cash flows, an important aspect of DCF method is the discount rate. The group typically used a discount rate which was in excess of the group's weighted average cost of capital. This gave them footing to use the same rate, basically, on every deal because they didn't want to get into a situation, where different rates were prevailing. According to them, the important thing was the cash flows because it was the day to day cash flows that determined how successful or not they were. They preferred the use of a fairly standard rate to everything transaction, unless there was a very good reason like country risk e.g. a deal in Brazil 3 or 4 years ago, they used a higher discount rate to reflect some of the inflation risks there. But generally, they believed that the risks should be reflected in the cash flows. So, for a much larger transaction, something that really affected the top line of TEL group, they probably used the actual weighted average cost of capital but for other transactions at divisional level like ITCO, generally, bundle rate – rate that inhabits the impact of different related factors - was more appropriate.

As per management, IT services sector had historically earned fairly poor returns on organic capital, where firms grow by themselves through a natural process without opting for acquisitions or mergers. On the other hand the returns were even worse in case of acquisitions because of the unrealistic prices that people pay for acquiring such businesses. *“...I mean the amount we paid on this, was in different environment, this was pre credit crisis, the amount we paid on this is not the amount we will pay now, we wouldn't have such high expectations of revenue and profit growth within the business”*, says Director Corporate Finance.

The restructuring issue was quite complicated. The first part of the acquisition, in this process, was carved out from a public firm, so it was a private transaction but with all the public firm issues involved and it probably took 9 months to execute. But it still lingered on as some minority share holders, who didn't sell their shares over time, took some more time. Years later, two business divisions and another firm were merged into ITCO, under the umbrella of TEL France. This gave a structure where one could really start to sort of squeeze out cost.

“...the integration plan was carefully prepared so that everybody knew it had to be implemented within a given time frame and defined in clear terms: Who reports to whom? Who is staying? Who is going? Where will the unit sit? How will its budget get set? Where are the cost savings going to be coming from? Who is responsible for them? What is the deadline for them to be achieved? And that’s the key part of the acquisition process because otherwise it’d be a situation where we would be saying, ok, we can justify this price of 70 million Euros but actually there is whole lot of additional cost that’s going to come in because we are not prepared to integrate or run it properly then that price effectively is going up, because the cash flows that support it are going down..”, says Director Corporate Finance.

Post acquisition restructuring of the acquired business with the existing business, in fact, was a crucial part of the valuation process, and caused a fair bit of debate. But they had to convince the value of the cash flows and for that they had to get a lot more cost savings out of it in order to justify the value; otherwise the support of finance team to this deal was not justified. This, definitely, required a very clear integration or restructuring plan, which could provide an assurance that one can generate the value from this business. Otherwise, it would have been disaster to plan the transaction in a manner to buy first and when dust was settled then think about to integrate it. Thus, restructuring or integration plan was the back bone of the valuation of the transaction and its performance.

This was substantiated by quoting an example of a TELCo: about 5 or 6 million Euros of revenue was generated from Fr Telecom, which was a competitor of TEL Group in France, and they were sure that this revenue won’t be there after acquisition. Consequently, while valuing the acquisition, such expected lost cash flows, the margins and how it would impact in terms of net present value, were duly considered. Eventually, they left when the transaction was done and did not affect the post merger performance to such an extent.

As per management, in this case no value was assigned to the intangibles, and these factors were not even considered by the TEL Group for valuations purposes. They were of the view that M&A transactions, related to tangibles rather than intangibles, were dealt by the finance function of TEL Group rather than by the department dealing with the strategy. This department was reported to the finance director, therefore, a case weighted on intangible would not be acceptable to him, and could not be taken to the board. Like in ITCo case, it would have not been possible to get approval, because the price included the strategic value of having a greater French footprint of 50 million Euros or any other

tangible amount. “...you can access intangible benefits, but you shouldn’t pay for them....”, says Director Corporate Finance.

They believed that one should pay for cash flows, and then that might lead to intangible benefits. The intangible benefits could give some bigger room for cash flows expectations, and for some reasons could turn out to be over optimistic.

The valuation was carried out by the management itself. “You know this; it’s an art rather than a science. When you engage somebody else you can make up any numbers you like, and we know that”, says Director Corporate Finance. The team that performed the valuations was themselves investment bankers and was aware of the tricks. They believed that the investment bankers were not only hired due the reason that they were expensive but also interested in getting the deal done at the right price. However, in case of ITCo transaction outside professionals, as mentioned earlier, were engaged because of the public takeover as it was a quite intensive time, if it was not something one could do all the time. Further, this takeover was in France with minorities issue involved.

The process defined in the group for getting approval of such transaction, had been refined over the period of time, compared to the one it used to be earlier. The TEL Group board approved only very large transactions, whereas the rest were done by the operating committee. This transaction was approved at the operating committee level which comprised the Group CEO, the Group Finance Director, CEOs of all of the divisions including the division to which this acquisition was related. The approval was granted on the basis of case, which was prepared by the finance team of TEL Group with the Tel France people.

The evaluation process also included some preliminary discussions with the target firm to seek information for getting approval from committee to determine the offer range, subject to the results of due diligence to be undertaken lately. In the committee, the debate and exchange of views of the members were more focused on: Whether it was really strategic? What could be a good price? In some cases, proposals were not approved but the finance department of TEL Group, while taking case for the approval, always ensured that they had a case that was credible on the financial returns standpoint and were paying tangible value for tangible benefits.

In the committee, the discussion about strategy and the intangibles also took place and gave due consideration, but again the valuation was primarily based upon the tangibles. The committee, after discussion, could have asked either to modify the proposal, or value needed to be revised or clarity on the involved risks was further required. As an outcome,

unless the proposal was outrightly rejected, a price range had to be determined which led to: conduct due diligence; negotiation with the seller; and enter into a final agreement. In case due diligence, resulted in significant variation in the value, was beyond the range permitted by the committee, the matter was referred back to them for approval.

Through due diligence process, it was ensured that there was enough protection available around all the assumptions, the figures and the assets that were actually being bought. On its completion, the committee was informed about the outcome, either the price was still justified or it had to be reduced or even found so many issues that justified it by saying “No” to the transaction or seeking their final approval. Upon approval the agreement was signed and the deal was announced. *“it really is just a 2-step process, which I think would be the same for any corporate or even private equity house. You are looking for approval, you are going to do something subject to diligence and then you report back with the final due diligence and you close the deal”*, says Director Corporate Finance.

The approval of the committee for the agreed price was obtained, which, in fact, served as a check and balance on the process followed for the purpose. ITCO said that they wanted much higher price than the price range approved by the committee they would have gone to the committee with their point of view whether such price was justified or not but it rarely happened, in most of the cases, like ITCO, a price range was approved by the committee to get the transaction done.

c) Performance Assessment

The objective of undertaking merger was strategic in nature, increasing presence in the French market by remaining uncompromised on the cost of the acquisition. Meaning, the returns from the acquisition should be more than enough to meet the cost of the funds deployed. The returns, in this case, were emphasized in the form of cost savings likely to be incurred when the acquiring firm would be combined with the operation of TEL France.

The transaction involved restructuring in two phases. The first phase, at the initial stage, was focused on the restructuring of the acquired firm, involved offloading overheads and employees which were surplus by considering the expertise, already available with Tel France. The performance of this stage could not be assessed by having access to the related statements of the ITCO but can be commented with reference to TEL France as a whole, which included this firm, by referring to the Annual Report of TEL Group for the years 2008 & 2009. The results, as discussed in the report, were not positive as the Tel France in this period reported loss, (though statutory accounts do not often align with the

management accounts used to run / evaluate the business day-to-day) where the rest of the group results were positive and encouraging. These results persuaded the Group management to undertake further restructuring, which apparently was not foreseen or planned at the time of acquisition. On this phase of restructuring, additional funds were earmarked, which if foreseen, could have been considered while undertaking the evaluation of the acquisition along with the loss for the post acquisition year.

The second phase was, therefore, featured with a large restructuring which caused merger of another firm of the group with the acquired firm as well as the contribution of two divisions of two different companies of the group in ITCo. On account of such transactions, further shares of the ITCo were issued to the TEL Group. This focus of the second part was to reduce losses by cutting costs. The name of the firm was also rebranded to TELs. Again, the performance of the second phase of the restructuring, as well, was assessed with reference to the group companies engaged in the same business, by referring to the information available in the Annual Reports for the year 2009 and 2010. In the reports, comments on the positive results of the Service Division in aggregate were discussed without any specific reference to the TELs, in the post second phase restructuring period.

An ideal situation, where performance could be evaluated by comparing the criteria followed at the time of evaluation with the results on the same pattern could not be assessed, due to lack of access to such information.

The performance evaluation generally, as applied to ITCo case as well, was carried out twelve months after the deal was closed, by reporting back to the committee, approving authority, with evaluation of the synergies available against the original business case. The accountability for the numbers was: how they had met the synergies, why the synergies were higher than expected, why they were lower than expected, why the integration cost had increased. This interactive approach was used as a tool for the performance evaluation, it also helped in improving the process of evaluating M&A transactions and this approach had made their group some way different from other acquirers, claimed the management.

The transaction ultimately, after two to three years, gave satisfactory results and fitted well with other acquisitions made, the group had a business in France that was doing well. Financially, the business volume in France, in terms of sales, went from doing around 200 million Euros to one that started doing around 500 million Euros; probably two thirds of the increase was from the acquisitions. So, the group found itself in a stronger position in

France, which corresponded with their Europe strategy to have stronger position in other main countries along with Germany, Italy and Spain. *“This was needed to make it capable of serving customers having presence in other Europe main countries, as no one could be saying well I can’t sign a European contract with you because you are weak in France”*, says Director Corporate Finance.

Largely, the acquisition results, while looking at the revenues were better from the combined business than expected, although all the west economies for 3 years were not as strong. Tel France was originally over optimistic but given the economic slowdown, and if such impact was normalized, the sales results were fair. It took a little longer time to get rid of some of the people than expected but that didn’t cost as much. As per management’s point of view there were always sort of pros and cons.

“....it’s not an exact science, but what you want to make sure is that you are well within range of the things and again we only pay value for the things that we can control. So the cash flows at the time of valuation were based on revenue figures which were achievable, without taking any wild assumption. Where, on the expenses side the calculations were simple and straight as the group knew how many reduced number of people were required in post acquisition period on account of restructuring. This impact was duly incorporated in the assessing the value of the transaction”, says Director Corporate Finance.

The transition process from old setup to a newly integrated one was generally smooth as it was the same management team who was running the business, so there was fair amount of integration, but there were also some complexities when minority shareholders were there to play their roles. This could be judged from the fact that one just could not go and put a whole lot of cost into the business, as minority shareholders didn’t have to bear the cost at that point. So, that took a little bit longer but it helped in making the right decision at right time, like to keep the people that were needed and identified.

As per management, the synergy targets were achieved, after this transaction and restructuring they had a much larger French footprint and the market position. Further, rationalization of some of the smaller units of this acquisition, though they were not part of the original restructuring plan at the time of evaluation of the transaction, was also made to make it a success. *“In case of portfolio businesses, like this, one should look at every year or so and say ok what fits, what doesn’t. So the evaluation is an ongoing process, even after initial acquisition”*, says Director Corporate Finance. This unanticipated profile fine tuning, based on saving the redundancy cost, caused sale of

three business units out of France, two of which came from this acquisition, couple of hundred people with each one.

So, these were not particularly profitable business units, but actually the key thing to TEL Group in France was particularly avoiding redundancy costs which were very high, firing surplus employees could cause at least their 18 months pay. So, these were the types of additional cost which the group had to take, resulting from this transaction, not anticipated at the time of undertaking evaluation process. *“....no acquisition is perfect and no target ever has everything you want. I would say as a rule of thumb if something is not 70-80% of what we need we really shouldn't do it, because its dead money that you are going to pay for the additional 20-30% and then you've got to generate even more value above and beyond that, to compensate for that...”*, says Director Corporate Finance. As per management's assessment, the transaction was probably 90% fit. Despite the fact that IT service sector changed very rapidly and one might find that a business unit that supported very old software code actually had 5 years more life than you would expect because as the economy slows, people don't upgrade their software, or don't change to new code. So, you should get rid of that business immediately or run it for cash for a little bit and then effect gradual closure over time. These are the factors which also got noticed when undertaking evaluation and the performance measurement, thereafter.

The restructuring, carried out, was not the same as foreseen at the time of evaluation, which at times was not possible, as per management. Take an example: there was a subsidiary in Morocco, which the French management had decided to retain to expand in that country; which was a natural adjacent territory - French speaking, provided they were in a good position in France. They hadn't done very well there, normally the options available in such a situation were either to fix it, close it or sell it. But in Morocco that was not the way the things worked, certainly not with public companies. And in that case, there were some union issues as well, so the management closed down the business to minimize the cash outflows that would have continued. Morocco not being a key territory, such decision had to be made and cost of closing business was the only viable option. But in other cases one can take different positions.

“Like, when one is talking about a unit that's got about 200 billable employees again one looks at that say, ok, what sort of level one needs to be at to compete in the specific segment of IT services. If answer was 500 employees, so, we had a choice, do we hire those additional 300 employees or do we actually sell the 200 employees to somebody who is more minded to go towards that scale”, says Director Corporate Finance.

6.1.6 Analysis

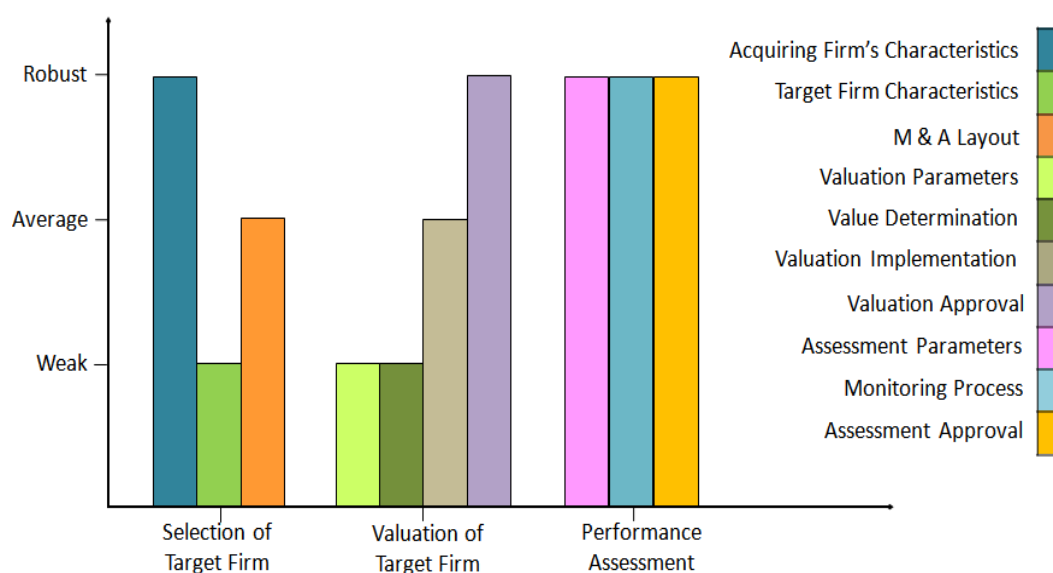
Using the analysis criteria defined in the Research Methodology part, the outcome of the transaction, on the basis of research area, can be analyzed as per Table 6:

Table 6: Analysis of Acquisition of ITCo by Tel Group

PROCESSES	SELECTION OF TARGET FIRM	VALUATION OF TARGET FIRM	PERFORMANCE ASSESSMENT
ACQUIRING FIRM'S CHARACTERISTICS	Robust		
Objectives	Robust		
Management structure	Robust		
Viability Assessment	Weak		
TARGET FIRM CHARACTERISTICS	Weak		
Potential Assessment	Average		
Impact Assessment	Weak		
MERGER AND ACQUISITION LAYOUT	Average		
Selection Parameter	Average		
Shareholding Structure	Average		
Mode of Settlement	Weak		
Approval	Robust		
VALUATION PROCESS		Weak	
Valuation Parameters		Weak	
Value Determination		Weak	
Valuation Implementation		Average	
Valuation Approval		Robust	
ASSESSMENT PROCESS			Robust
Assessment Parameters			Robust
Monitoring Process			Robust
Assessment Approval			Robust
AGGREGATE EVALUATION	AVERAGE	WEAK	ROBUST

The graphical presentation of above table has been expressed in Figure 12:

Figure 12: Analysis of Acquisition of ITCo by Tel Group



The above results can be analyzed from two different perspectives. Firstly, how three components of business evaluation impact the outcomes of the M&A transactions? Secondly, how does each factor of one component impact the result of the other component's factors, on account of chain relationship?

In this case, component based analysis reveal that out of the three components of business evaluation; target firm selection part was average; the processes involved in the valuation of target firm were weak, where the performance measurement processes were quite well defined and effective. Therefore, the reasonable basis of selection of the target entity and robust presence of the monitoring process over powered the weaknesses of the valuation process and turned the transaction into success.

Going into the details of the target firm selection process the characteristics of the acquiring firm, to undertake such transactions, were well defined and controlled, as there existed clarity on the objective to be achieved from such transaction. Director Corporate Finance quoted, broadly, in this regard that *"The idea was to upscale the business from about nine hundred staff to about two and a half thousand by combining two acquisitions with the existing business. This would then position TEL Group as one of the top ten suppliers of IT services in France, from a position of only being, in the top 50 previously"*. The decision making body was, also, well composed to ensure rationalized decisions. Where, the process followed for the assessment of the target firm was not satisfactory, as neither the potential of the target firm was thoroughly assessed, nor the likely impact of such acquisition transaction on the third parties was rightly evaluated. These weaknesses led to laying down faulty foundation/basis not only for layout of the transaction but also provided a bad start for the valuation process, as ill defined parameters led to inappropriate valuation. However, execution of the transaction, which in fact was not a part of this chain process, was reasonably carried out.

Valuation part, as per analysis, was not professionally undertaken. The criteria followed in this process was quite pre defined instead of taking into account issues pertaining to each specific transaction, which was evident from the fact that the price was determined on the basis of market standard, DCF method was used to ensure that the price so determined was justified. *"Cash flow based valuation was undertaken by the management to ensure that whether a typical market premium of 30% (based upon the Group's assessment) over market value was justified"*, says Director Corporate Finance. The tangible factors, while preparing DCF, were given due weightage, while the intangible matters, as a policy, were not accounted for. Director Corporate Finance quoted that *"...you can access intangible benefits, but you shouldn't pay for them"*. Impact of the

restructuring, likely to take place in the post acquisition scenario, was also not conceived in depth. Analyzing the factors involved in this process, it can be summed that the weakness of the valuation parameter resulted in determining inappropriate value. This could not be overcome even by the strength of the valuation implementation and approval processes.

Performance measurement and monitoring processes were very well placed, these helped in identifying, on timely basis, the shortcoming of the other two components, particularly the valuation related process, and led to the remedial action - reduction of staff, merger of another firm and contribution of two departments by the other companies of the group - to undo the effects of the steps wrongly taken in the earlier stages. The strength of this component was derived from effectiveness of all its factors starting from properly defining assessment parameter, effective monitoring process and vigilant methodology adopted for seeking approval from the competent authority.

In other words, initially the performance of the transaction was not positive and resulted into losses - which though could not be directly confirmed but observed from the interview and audited financial statement of the group. On account of the performance evaluation process, the next phase of restructuring was implemented to make the transaction viable. *"....no acquisition is perfect and no target ever has everything you want. I would say as a rule of thumb if something is not 70-80% of what we need, we really shouldn't do it...."*, says Director Corporate Finance.

Analyzing the inter-relationship of the factors of the components; acquiring firm's initial assessment of the viability of the acquisition transaction was weak, though the objective of the transaction was clearly defined. This also played role in inappropriate assessment of selected firm characteristics. The weaker aspect of the selection of target entity process resulted into not so effective transaction layout and badly influenced the processes of defining the basis of valuation parameters and determination of the value. These two deficiencies of the valuation process were not even overcome by the effective approval and implementation process, which, logically, did not have direct impact on such processes.

Performance measurement components effectiveness can be ensured when it is performing its functions and processes independently. In this case, as well, the effectiveness of this process produced results and highlighted the deficiencies of earlier processes, which were rectified by taking timely remedial measures, and turned the transaction into success. These remedial measures led to review of the restructuring plan

which was initially not conceived properly. Also, it helped in redefining the acquisition layout to make it more conducive to the objective of the transaction, “.....*the evaluation is an ongoing process, even after initial acquisition*”, says Director Corporate Finance.

6.2 Case 2: Acquisition of GV by NZ

6.2.1 Overview

Newport Beach-based GPS semiconductor firm GV was acquired by NZ Semiconductors, a Netherlands-based semiconductor firm. NZ Semiconductors agreed to pay \$87M in cash plus up to \$25M in milestone payments for the firm that had developed global positioning system chips and satellite navigation systems. GV had approximately 50 employees and contractors at locations in the United States, United Kingdom, Ireland and Taiwan.

6.2.2 The Acquiring Firm

On 1st September 2006, PS Semiconductors changed its name to NZ after 53 years of its incorporation. The name change announcement followed an agreement between PS and KKR & Co., BC, SL Partners and AA Partners that enabled the consortium to acquire an 80.1% stake in the semiconductor operation (NZ) with PS retaining a 19.9% interest. NZ was Europe's second largest semiconductor firm and in global top 10 players. Explaining the financial structure of the equity funding, CEO, NZ Semiconductors confirmed that NZ would have over 1.2 billion euro in cash and credit reserves. This financial buffer would also enable the firm to explore other options for acquisitions.

Mr. JH from KKR, the leading partner in the private equity consortium, added: *"We were attracted to a world class business with a global scale and presence. NZ is leading in markets with strong growth characteristics, for example Near Field Communication and digital TV. The business renewal strategy is a strong foundation for future growth, and we look forward to supporting the existing management team as it continues to add value to this business."*

Operational activities of NZ were allocated among business units, based on similarity of the nature of the businesses undertaken. In 2007, the products sold by the business units encompassed two categories. The first category consisted of highly differentiated application-specific semiconductors and system solutions. The profitability of these products depended to a significant degree on their ability to innovate and develop new technologies and customer solutions.

Second of the product categories consisted of standard products, devices that could be incorporated in many different types of electronic equipments and which were typically

sold to a wide variety of customers, both directly and through distributors. The profitability of such products was driven by manufacturing cost, supply chain efficiency and continuous improvement of manufacturing processes.

Its business units were grouped into the following, and acquisition of GV was related to the Mobile & Personal business unit:

- i) Mobile & Personal
- ii) Home
- iii) Automotive & Identification
- iv) Multi Market Semiconductors
- v) IC Manufacturing Operations (IMO)
- vi) Manufacturing and Materials

a) Management Structure of Acquiring Firm

Under the chairmanship of the CEO, the Board of Management was entrusted with the general management of the firm, including setting its strategy and policies. The Board of Management was accountable to the Supervisory Board and to the general meeting of shareholders, and its members were appointed and dismissed by the General Meeting of Shareholders upon proposal by the Supervisory Board. Major decisions of the Board of Management, including decisions relating to the firm's operational and financial objectives as well as the strategies to achieve those objectives, required the approval of the Supervisory Board. Executive Management Team (EMT) having mandate of the deployment of the firm's strategy and policies was accountable to the Supervisory Board and to the general meeting of shareholders.

Members of the Board of Management held office until they were removed or replaced by the General Meeting of Shareholders. The board comprised of the following categories of the members:

- i) Executive members
- ii) Non executive members

EMT, comprised of the members of the Board of Management as well as eight senior executives of the firm, had overall operational responsibility for the management of the firm and carried out the day-to day operations of the business, including the development of business plans, budgets and operational forecasts. Members of the Management Team, other than members of the Board of Management, were appointed and dismissed by the Board of Management and held office until they were removed or replaced by the Board of Management.

Supervisory Board had comprehensive oversight responsibilities and supervised and advised the Board of Management in performing their management tasks and setting the direction of NZ's business. It approved major management decisions, including the overall business strategy, and supervised the structure and management of the firm's internal control systems and the financial reporting process.

While retaining overall responsibility, the Supervisory Board assigned certain of its tasks to three permanent committees: the Operating Committee, the Nominating and Compensation Committee and the Audit Committee. The Supervisory Board consisted of eight members, appointed and dismissed by the General Meeting of Shareholders. Six of these members were nominated by KH B.V., one each by PS, and by Chairman, who was appointed and dismissed jointly by KH B.V. and KPS Electronics N.V. The members of the Supervisory Board held office until they were removed or replaced by the General Meeting of Shareholders. Members of the permanent committees were appointed and dismissed by the Supervisory Board.

In a nutshell, the supervision of the management and business of NZ was entrusted to the Supervisory Board, which was a separate body, fully independent of the Board of Management. This independence was apparent from the requirement that members of the Supervisory Board should be neither members of the Board of Management nor employees of the firm.

b) Business Strategy of Acquiring Firm

GV had a significant intellectual property portfolio and over 20 years of technology heritage in developing silicon-based GPS solutions. Through this acquisition, NZ was able to access GV's single chip and 90nm capability to establish a strong presence in the fast growing GPS market in both personal navigation devices and mobile phones, and further strengthen its capability to offer functionally rich, integrated cellular solutions for its mobile customers. The deal gave NZ immediate access to GPS products and technology, and it was the third acquisition by NZ over the past 15 months, since a private equity group bought it in September 2006. Two of the deal focused on extending the chip maker's reach in mobile communications.

At the time of entering into transaction, there was an expectation that by 2010, approximately 40 percent (some 560 million) of mobile phones will be equipped with the GPS feature, which formed the basis of GV and other acquisitions by NZ.

"We already turned the cell phone into a multimedia wallet it's only natural that we also want to use our mobile phones to navigate and to find local goods and services. GPS

integration allows us to create these and many more interesting and dynamic features, continuously enriching the cell phone in our pocket. Combining GV's GPS expertise with NZ's FM Radio, Bluetooth, USB, and NFC leadership enables us to offer a broader connectivity suite to the mobile phone market.", FV, CEO, NZ Semiconductors.

"Becoming part of NZ allows us to achieve the required scale in innovation and opens up many new markets and customers in order to exploit the significant market potential for GPS and have access to NZ's impressive customer base, which includes all the leading handset and device manufacturers.", BM, CEO, GV.

NZ's acquisition of GV was a part of busy year of high-profile acquisitions in the GPS sector of the semiconductor industry. A week before this transaction, wireless chip and chipset provider AC Inc. announced plans to acquire GPS tech supplier NM in a \$54 million deal. Prior to that, ST acquired CC while BC acquired GL.

NZ, in fact, in the year 2007 pursued Redesign Program. For the purpose, numerous steps were taken which also included disposal of some of the units to follow the assets lightning policy as well as acquisition of businesses to strengthen the growth in the focused areas like Cellular phones, personal entertainment, home electronics, automotive, identification and multi-market semiconductors.

6.2.3 The Target Firm

GV was formed in June 2006 from the GPS business of CV and the acquisition of RF assets. The baseband IP came from CV and the radio technology was under development at RF, a Newport Beach, Calif. startup. RF employees retained an equity share in the new firm. CV had a 19.9% equity stake in GV. As part of the deal, GV had licensed the CV TeakLite DSP core for the development of GV's GPS baseband chipsets. At the time of merger, GV received a \$16.6 million funding from AA Ventures. In addition to the funding, there was an additional estimated \$60 million, which was invested by RF and CV to develop the GPS technology.

"Today's announcement that NZ Semiconductors is to acquire GV is great news and is in line with the company's strategy to focus on its strength as a leading silicon intellectual property SIP provider for DSP cores, multimedia, Bluetooth and SATA products." said CV CEO.

CV, a solutions provider offering DSP technology, decided that the GPS unit would have a better chance of success as a separate entity. The CV GPS IP had been licensed to 18 companies, major semiconductor manufacturers and handset products firms. The core

team that came with the spinout of CV had been together developing and refining the technology for over 20 years and RF had a working on GPS radio solution when the merger took place.

GV, therefore, was engaged in the production of fables semiconductor firm developing global positioning system products for the cellular handset and mobile consumer, electronics device markets, announced the production of GNS4540 high-performance single chip L1 A-GPS solution targeted for the cellular handset and mobile consumer electronics markets. Offering best-in-class acquisition and tracking sensitivity, time-to-first-fix (TTFF), accuracy and power consumption, the GNS4540 supports both Assisted-GPS operation on GSM, WCDMA and CDMA networks and fully autonomous operation for use in handheld consumer navigation devices and other standalone navigation systems.

The staff of GV was spread out worldwide with about a third located at its Newport Beach headquarters and RF development center, a third at its GPS technology design center in Daventry, England, and a third at its VL development facility in Dublin, Ireland, and maintained sales and applications centers in Taiwan and Korea.

6.2.4 Transaction Details

The consideration of USD 87M in cash plus up to USD 25M in milestone payments was based upon assets acquired amounted to USD 2 million, the liabilities assumed of USD 4 million. The purchase price was mainly allocated to other intangible assets (USD 69 million) and goodwill (USD 20 million, net of deferred taxes). Other than the intangible assets the net worth of GV at the time of acquisition was negative by USD 2 million, representing the losses it suffered in the past.

The acquisition agreement contained following two types of contingent payments to its GV stockholders:

- i) product related payments; and
- ii) revenue related payments.

For two years after the agreement was executed (the “Contingency Period”), NZ was required to monitor the progress of GV to determine if the contingencies underlying the contingent payments had been met. The product contingent payments were due when certain product development milestones were achieved and the revenue contingent payments were due if certain sales levels were achieved.

The contingency clause was applicable so long as GV remained a functioning subsidiary of NZ, with substantially all of its assets intact, during the Contingency Period. The treatment of the contingent payments in the event NZ sells or transfers GV or GV's assets during the Contingency Period, required the acquiring party to either:

- i) pay the GV Stockholders the maximum possible amount of contingent payments that could be realized under the terms of the Agreement; or
- ii) assume all of NZ's obligations related to the contingent payments for the remainder of the Contingency Period.

6.2.5 GV Business Disposal by NZ

Because of the above enumerated reasons on August 2, 2008 GV along with the other Mobile and Personal Unit assets of NZ were disposed to a joint venture set up by NZ and TM. Both the firms combined their wireless operations to form a new joint venture firm named T-Z Wireless, in which NZ received a 20% ownership interest and cash consideration of USD 1.55 billion. However, the net assets divested amounted to USD 1,976 million, resulting in a loss on the transaction of USD 413 million.

Effective February 2, 2009, TM exercised its option to buy remaining stake in the joint venture for an agreed purchase price of USD 92 million, this was proportionately around 75% less in value compared with consideration received for 80% shares.

6.2.6 Financial Performance of Mobile & Personal Unit of Acquiring Firm

Review of the Annual Financial Statements of NZ, available at its website, revealed the following facts and figures demonstrating the results of its Mobile and Personal Unit after the acquisition of GV. The outcome combines the impact of GV as well as the results of NZ own assets pertaining to semiconductor related products. Separate data or review of GV was not available but the results of the unit clearly depicted the post acquisition performance of GV.

Table 7: Pre and Post Acquisition Comparison of Acquisition of GV by NZ

Particulars	Year on Year (million USD)	
	Q3 2007	Q3 2008
Sales	583	282
% nominal growth	11.0	(51.6)
% comparable growth	5.3	1.9
EBIT	70	(474)
Effects of PPA	(64)	(31)
Incidental Items	96	(464)
Adjusted EBIT	38	21

(Source: Annual report of NZ for the year 2007/2008)

The nominal sales declined despite excluding the effect of deconsolidation of the wireless activities as from August 2008 which contributed USD 120 million sales in the 3rd quarter 2008 and 19% negative EBIT contribution, thereby reflecting overall bad performance of the unit in the year 2008. So, the contribution made by the GV acquisition was not positive and added to the misery.

In the Annual Report for the year 2008 following issues, causing loss in the year 2008, pertaining to semiconductor industry was also disclosed. These factors were not rightly investigated while evaluating GV acquisition.

a) The financial performance of the semiconductor market was highly cyclical and experienced a downturn.

The semiconductor industry as a whole was in a sharp downturn, particularly in the view of deteriorating general economic conditions. These conditions negatively impacted the business, leading to a severe downturn in revenues for 2008 and a significant loss of cash from our operating activities.

b) In difficult market conditions, NZ's high fixed costs combined with low revenues negatively impact their results.

In this period, NZ experienced a difficult market environment and the utilization levels during the year 2008 decreased from 88% in the first quarter of 2008 to 78% in the second quarter, 68% in the third quarter and 56% in the fourth quarter. Lower utilization had a negative impact on the operating results due to heavy fixed cost being feature of semiconductor industry.

c) The industry being highly competitive required new technologies and products in a timely manner, otherwise it could adversely impact the business.

The semiconductor industry was highly competitive and characterized by constant and rapid technological change, short product lifecycles, significant price erosion and evolving standards. Accordingly, the success of the business was depended to a significant extent on the ability to develop new technologies and products that were ultimately successful in the market. This involved substantial amount to be spent on R&D financed through adequate level of sales volume, which could not be achieved.

However, separate financial results and analysis of GV in the post acquisition were neither publically available nor were provided by NZ, but from the study of publically available information like Annual Reports etc., as referred above, one can gather that the performance of GV acquisition was not a success. The technical assessment of the firm

and the future market growth of GPS technology were not rightly evaluated. This led to inappropriate valuation of GV, even to the extent that leverage of contingent payment was ineffective.

6.2.7 Findings

Interviews of Senior Managers were conducted, relating to the Merger and Acquisition Department and of the Business Development Department. The details of the interviews have been arranged in accordance with the research areas, in the following manner:

a) Selection of Target Firm

Management Team, comprising of the members of the Board of Management as well as eight senior executives of the firm, had overall operational responsibility for the management of the firm. Members of the Management Team, other than members of the Board of Management, were appointed and dismissed by the Board of Management and held office until they were removed or replaced by the Board of Management.

“The objective behind this acquisition was to complete the product portfolio of connectivity by adding GPS products. GPS was becoming very important for mobile handset application, and the attach rate of GPS was expected to increase from <1% to >50% in 2012. Developing GPS products in house would have taken a long time therefore, our management decided to go for an acquisition”, says Senior Manager Merger and Acquisition.

Identification of the firm was initiated by selecting number of companies, meeting the objectives criteria, and then selecting three out of them. Those short-listed were worked out by the Executive Management Team (EMT) for further first analysis, and after analysis the approved was sent to the board of the management for the final approval. From the short listed companies GV came up as a strong candidate to meet the criteria. The board was informed by way of formal report and at the board level issues relating to the firm's history, competence in GPS technology, roadmap and current financial accounts were discussed.

Short listing criterion was mainly focused on the firm's history and competence in GPS technology, covering factors like number of patents, technology node and product roadmap. The most important aspect related to the product roadmap was the capability to move to 45nm technology node, which was required to move from 2 chip solutions to 1 chip GPS solution and in the smallest foot print to meet the specifications for mobile handset application.

“The technology node of 45nm was very important for us because of higher level of integration of GPS in connectivity combo’s which was technically not viable with current technology node of 65nm. This was the key objective for us from product roadmap perspective and sustainability of the product portfolio”, says Senior Manager Business Development.

The business executives who were part of the Mobile and Personal business unit conducted initial strategic fit. For the final approval of the board, the executives looked into the patents, technology, products roadmap and customer base before they made the proposal to the EMT, of which they were member.

Board planned to have a full buy out of GV. The price tag, discussed, was in the range of 90 to 110 million dollars, which was further reviewed by the management team, and was assessed by an independent financial advisor. This price range was mainly based on GV patents, technology investment, which they had done in the past including the product roadmap, and the sales projections for the next 3 years.

At the initial assessment stage the likely impact of the transaction on existing customers as well as on the market was briefly assessed. Normally, as a policy when a firm was acquired or part of existing business was disposed off, coordination and communication with the lead customers and market had to be made to see how they would be impacted by the transaction depending on the situation.

“There was lot of excitement to acquire a company having GPS technology because at that time GPS was evolving very fast as a feature and it was expected to create a big hype in the mobile hand set market. Many mobile operators had plans to take GPS technology on board even some mobile handset makers announced to add GPS feature in the mobile handsets. But we did not have fully matured GPS product and technology in-house, and taking over a company having GPS technology was a better and faster approach”, says Senior Manager Business Development.

Initially, foreseeing the rising demand for GPS technology in the period to come NZ started in-house GPS development, which continued during last few years but it was not matured enough to come into operation. The management was of the view that this would take few more years, where the GPS evolution in the market was moving at a faster pace so they decided to acquire the developed technology instead of developing it.

Impact of the acquisition on suppliers as well as customers was also given consideration, though no formal study or report was prepared in this regard. GV, itself, had a very small

volume of production, where the size of NZ was much bigger which would influence the market in different manners.

Requirement of restructuring was not examined at selection stage, technology wise the management was quite clear that how the things should happen afterwards. However, the intangible assets including patents, design and technology, being of primary significance, were evaluated in detail.

After considering all the related factors as stated above, the value of the firm was discussed at EMT level by relying on in-house feedback they received, and finally it was referred to the board for approval.

“While seeking approval for the selected company from the board some members deliberated in detail about the track record of the company, its GPS competence and effectiveness. In fact, there was no reservation as such that they did not want to continue with the acquisition. It was understood and agreed between EMT and the board members that we need GPS technology and we need to acquire it from outside”, says Senior Manager Merger and Acquisition.

While deciding GV technology, the focal point was that: how quickly they would be able to acquire it and integrate its GPS product with their Bluetooth; to enable one chip connectivity combo, would the libraries be available for 40nm technology node; and would it be possible to convert existing technology of the GV etc. It was observed that at least 6 months were required to convert it into right libraries of technology and to derive the product roadmap onwards, since time to market the product was very critical to the board of management.

All the discussions were documented in the form of minutes of the meeting to make it part of the record. This practice was followed whenever there was a meeting related to the operational, board and executive management team level.

There was a consensus that without GPS the connectivity portfolio was incomplete and it would cause harm to the sustainability of the firm. Even if there were intentions to sell out or expand Mobile and Personal business unit of NZ at a later stages, without GPS this would not be possible in a viable manner.

b) Valuation of Target Firm

Firm's valuation was done by taking into account: existing and new patents (to be filed or in the pipeline), the most valuable aspect to calculate the value of the firm; projected revenues for next 3 years; technology investments; value of all of the tangible and other

non tangible assets; liabilities of the firm; and dividend payout. For this purpose, in addition to the internal working, an independent outside professionals were also engaged to a limited extent.

“The objective was to have complete connectivity portfolio with GPS, and NZ was lacking on this account. This deficiency of NZ also had an impact on the valuation basis, and if needed it would have offered higher than the calculated market valuation”, says Senior Manager Business Development.

Independent consultants were hired for a very short period of time, and their recommendations were also discussed in the EMT for final recommendation to the board, and they had no major reservations on selection of GV or its valuation. However, the main work like 85% was done in-house by NZ by its small M&A team comprising of group of consultants, who were updated on new technologies and business development activities. Most of these persons had extensive experience in M&A, and had worked with multinationals and management consultancy companies.

Different methods were looked for determining the worth of the firm, the discounted cash flow was one which was primarily used. But, because of contingent payment clause, the valuation was primarily based on projections given by GV, claiming achievable revenue figures. While deciding its discount rate, the risk factors involved were given due consideration; for example, 3 years revenue projections were taken as base because of high risk of technology. The delay in meeting the targeted dates could have significantly affected the business viability on account of rapid changes in technology and market trend. To substantiate the determined value, reference was also drawn from the market regarding valuation of incumbent semi-conductors business, similar to the acquisition of GV.

While doing valuation, the impact of competitors was due consideration because GPS was becoming hype and at that time many semi-conductor companies, in both mobile handsets as well as in consumer applications, were on the look to buy GPS companies like GV. This had a significant influence on the valuation of GV.

Possible impact of GV acquisition on the customers was also evaluated and found very positive because they knew that GV would be a part of a big firm, which had established processes on production, industrial, technology, development and complete portfolio of mobile handsets without which GPS alone cannot survive. The suppliers' views on the contrary were not that positive as they tend to charge high cost when their customer like GV was buying small quantity. GV, since, was going to be a part of big firm they would

certainly lose that kind of high margin. Further, they were expected to follow the agreements with NZ, entered into on more economical terms. But thinking on long-term basis they had a different perspective as GV was entering into different portfolio and its business volume was expected to multiply.

Restructuring, likely to take place after the acquisition, was imbedded in the projections, prepared for the valuation and were presented to the executive management board. It mainly involved re-organizing and consolidating R&D, industrial and marketing teams. R&D and Industrial side were more significant in this respect as they involved volume of resources to be consolidated. The outcome, finally expected, was newly organized teams. This issue being critical in nature was frequently discussed in-house as, critical post acquisition step. Besides technology part, the cost savings was also on agenda for carrying out restructuring.

“...there was a well drawn restructuring plan to integrate GV management, the marketing, R&D and the customer support of organization in NZ....this started taking place by integrating people of both companies pertaining to different disciplines. For valuation sake the financial projections were prepared on restructured organization. Number of other issues relating to patents and technology like the next products on the roadmap were discussed between the both management teams, from NZ side and from the ex- GV management, with an objective to find the best way forward for the current projects and not to disturb their products timing to market”, says Senior Manager Merger and Acquisition.

Intangible assets like patents and technology, as said earlier, were major reasons behind this transactions, their evaluation was done with due care by making thorough assessment of their market relevance, years of existence, expiry date as well as the actual revenue generation against projections from inception to date. Similarly, the availability of libraries to switch to next generation technology and competence to achieve the objective were also considered equally important, for the purpose. This assessment was done based on man month used to estimate the current valuation of that activity, and customer design-in success was also used as basis to estimate value of these assets.

Though, the valuation was done in-house by the executives of business management side called BU (business unit), R&D, marketing, and finance, some assistance from the outside professionals was also sought. The BU and financial management reported the outcome to the EMT, pre-aligned with various operational teams. To ensure transparency, every meeting/discussion on the subject between the business executives and EMT, as

well as between EMT and board was recorded in minutes and re-evaluated. While seeking approval from the concerned team or board these minutes were also presented, so that all the merits and demerits could be accounted for reaching to a conclusion.

Value determined was kind of a budget put aside by the NZ, and it was different from the negotiated prices. On the basis of revised figures, viability was revisited to seek approval of the board of management after getting node from different BU. Agreed price was not paid upfront rather part of the amount like 10% to 15% was performance based, depending upon the future revenue target and maturity of the products in pipeline.

It is vital to mention that GV after acquisition in few months time, along with the Mobile and Personal BU of NZ, was disposed off to a joint venture to which NZ was minority shareholder. The worth of the transaction was above \$ 1.5 billion, and GSP technology acquired from GV was one of the vital factors contributing to this value.

“The price paid by NZ was reasonable if we look at it from the perspective of GPS technology that how much one would need to invest in it while going for an in-house development. Simply, because of the reason that GV after six months was disposed off, one cannot say that price paid for GV was not justified. Rather, it can be looked at from different perspective that in case NZ had not acquired GV it would have not been able to sell its whole mobile and personal BU, because of the big gap in the product portfolio without GPS technology, acquired from NZ. The acquisition of GV, hence, was a right decision at a right price”, says Senior Manager Merger and Acquisition.

c) Performance Measurement

Performance was evaluated on the basis of criteria: revenue generation of GV products; progress during development of new chip/combo solution; and integration of the new organization (i.e. R&D, industrial, customer support, etc.). On the revenue side the performance was not satisfactory and initial revenue targets of \$ 15 to 20 million from existing GV products were not achieved.

“Based on sale leads and customers’ engagement on GPS products our conservative revenue target was from \$ 10 million to \$ 12 million. But unfortunately what we eventually achieved was less than 10 million dollars. The problem with one of the product of GV was of technical nature. It was highlighted when the product hit market first time and many customers returned the products. It was later on removed but it took six months time to fix it as the product had to be redesigned and re-launched. In addition to this the growth in GPS demand, as expected at the time of valuation, was not up to the mark. Both these factors led to reduction in revenues”, says Senior Manager Merger and Acquisition.

From R&D perspective, the objective was achieved and the progress to convert the GV GPS from 65nm to 45nm technology was satisfactory. As a result, their new combo BT, GPS and FM COMBO chip based on 45nm technology was the first to arrive in the market, achieving the defined technology targets. There were some technical problems initially, not assessed at the time of valuation, but were taken care of at the later stage. These problems hindered the achievement of the revenue targets at the beginning.

Because of the above stated reasons, the part of the consideration against the value agreed for the acquisition was not paid. Though, GV sponsors claimed such amount on ground that as per agreement it would become due if GV was further disposed off, as detailed below, within a defined period of time.

Performance evaluation criteria for the post acquisition period were clearly defined and put in place by the operational teams for every part of the business covering sales, marketing, R&D, industrial, logistics and financial control side, and they were reviewed on monthly basis. These were then shared with EMT and also with board. The comparisons of the projected and actual results was undertaken, the shortfall analysis was also discussed with GV owners because the part of the payment was dependent upon the meeting predefined targets. At the time of transaction, 85% to 90% of the payment was made and rest was related to certain milestones, and one of the milestones was meeting the revenue target, projected by GV.

NZ, though, made its own assessment of projected revenues but the actual results fell short of such projections. The projections were then revised to accommodate the loss of revenue on account of technical problems as some of the customers switched to the competitors. The impact of intangible factors was also considered while undertaking performance evaluation but no significant variation between the projected and actual results was observed. Most of the aspects, such as assessment of patents and technology maturity levels, were on target.

At the performance measurement stage, there was no major realization highlighting wrong assessment at the entity identification stage. The decisions made at that stage were correct, as at that time the choice available in the market was very limited while finding a GPS firm with a good patents, good technology and capability of developing it further to next generation GPS products, which were most important to pick the right firm to turn NZ into industry's best GPS COMBO solutions in 45 nanometer. However, valuation was subject to following observations:

- i) Projected revenues were not achievable because the market was still evolving; it was very difficult to forecast demand in emerging technology.
- ii) Further investment needed in GPS Technology to switch from 65nm to 45nm technology/new products without starting from scratch.
- iii) Required organization, resources, investments etc. to have something credible and be ahead of industry in next generation GPS COMBO.

Restructuring planned at the time of valuation was considered, while undertaking performance measurement by comparing results under both the scenarios. It was, also, observed that in addition to the planned restructuring some further changes were desired to make the outcome of the transaction a success. This process continued till the end of subsequent six months, and was focused on changes in management and operational activities, as GV was a multi-site firm and did not have offices at all the sites to optimize locations to get rid of additional costs.

Performance results were reported to the EMT periodically, may be monthly, and where necessary to the board. There was a broader consensus that despite post acquisition remedies in shape of corrective and, further, restructuring measures, the setbacks related to inappropriate technology assessment - which they later tried to overcome - and forecasting of GPS market, could not be addressed and actual results remained below expectations.

“That in-house assessment of future market prospects was based on the GPS market data forecast for next 5 years done by an independent outfit. Most of the semi-conductor suppliers buy these reports from third party research companies. We used that data and made own judgment since we had some insight on market and GPS as feature. The persons working in the department were expert researchers with over 15 to 20 years of experience”, says Senior Manager Business Development.

To overcome pessimistic situation the firm carried out in house sensitivity analysis, and it was extensively discussed and shared with the desired management level as well as EMT. It's important to note that it was not only GV which was affected because of unexpected market trend of GPS; many other companies in the same business had to suffer losses.

Finally, the loss suffered by GV in post acquisition period, to a limited extent, was compensated on account of mode of payment planned and agreed with the target firm, by making part of it conditional to the achievement of the agreed sales target.

6.2.8 Analysis

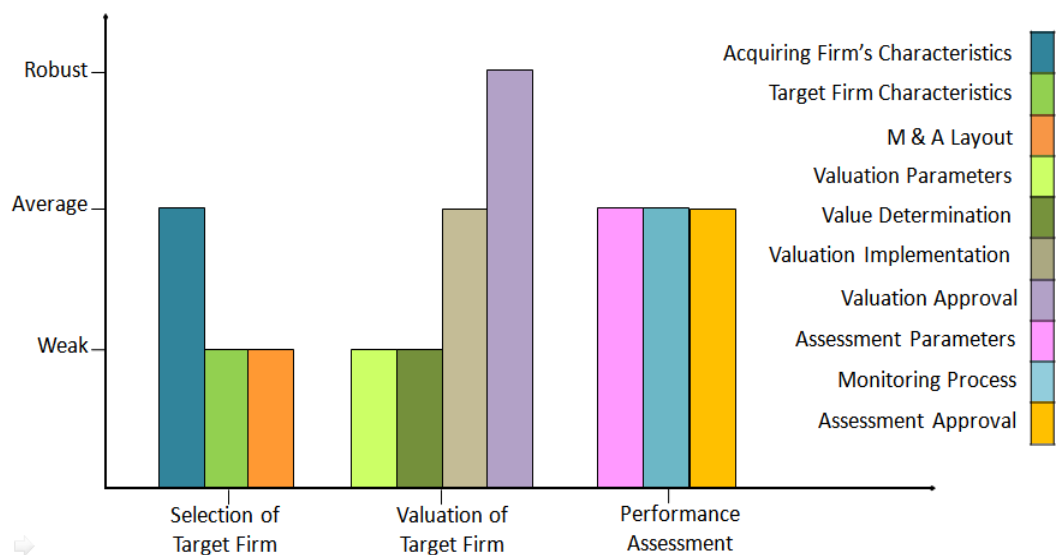
The outcome of the case study was analyzed on the basis given in Table 8 to find answers to the research questions:

Table 8: Analysis of Acquisition of GV by NZ

PROCESSES	SELECTION OF TARGET FIRM	VALUATION OF TARGET FIRM	PERFORMANCE ASSESSMENT
ACQUIRING FIRM'S CHARACTERISTICS	Average		
Objectives	Robust		
Management structure	Robust		
Viability Assessment	Weak		
TARGET FIRM CHARACTERISTICS	Weak		
Potential Assessment	Average		
Impact Assessment	Weak		
MERGER AND ACQUISITION LAYOUT	Weak		
Selection Parameter	Weak		
Shareholding Structure	Average		
Mode of Settlement	Weak		
Approval	Average		
VALUATION PROCESS		Weak	
Valuation Parameters		Weak	
Value Determination		Weak	
Valuation Implementation		Average	
Valuation Approval		Robust	
ASSESSMENT PROCESS			Average
Assessment Parameters			Average
Monitoring Process			Average
Assessment Approval			Average
AGGREGATE EVALUATION	AVERAGE	WEAK	AVERAGE

The graphical presentation of above table has been expressed in Figure 13:

Figure 13: Analysis of Acquisition of GV by NZ



Component based analysis reveal the processes involved in the selection of the target firm was average but the valuation process was weak and not professionally undertaken. This could not be overcome through the assessment process, which itself was average and not desirably effective.

Processes relating to the selection of target firm was not robust on account of inappropriate assessment of the target firm characteristics/potential as well as deficiencies pertaining to the transactions layout. The objective of the transaction was clearly defined *“...the objective behind this acquisition was to complete the product portfolio of connectivity by adding GPS products. GPS was becoming very important for mobile handset application and the attach rate of GPS was expected to increase from <1% to >50% in 2012...”*, says Senior Manager Business Development. The management structure to grant approval for such transaction was also ideally placed *“...while seeking approval for the selected company from the board some members deliberated in detail about the track record of the company, its GPS competence and effectiveness...”*, says Senior Manager Merger and Acquisition. But the assessment of viability - technical as well - of the transaction, while undertaking selection of the firm, was not thoroughly carried out. Further, the assessment of the target firm was not independently and professionally undertaken, at this stage. In continuation to these factors, the transaction layout was also not adequately defined or elaborated. All this led to laying down not so solid foundation for the outcome of the transaction.

Valuation of the target firm was another weaker area of the transaction, the parameter defined for the valuation were not independently assessed and properly defined. *“There was lot of excitement to acquire a company having GPS technology because at that time GPS was evolving very fast as a feature and it was expected to create a big hype in the mobile hand set market...”*, says senior manager Business Development. This element had overridden the shortcomings, which should have been highlighted or considered while evaluating the firm *“...and NZ was lacking on GPS technology, this deficiency of NZ also had an impact on the valuation basis, and if needed it would have offered higher than the calculated market valuation”*, says Senior Manager Business Development.

Unfortunately, the technology part was not rightly assessed, and it had some weaknesses, which were realized later at the performance measurement stage. The valuation was based on the revenue projections provided by the target firm were not adequately assessed by the in-house trained employees as they had a comfort that a part of the acquisition payment was contingent to the defined revenue targets and maturity of the technology, which though at the later stage proved not to be adequate. Because of over reliance on

such factors, independent professionals were not fully engaged to cover the technology, market and the financial side. Rather, from the marketing perspective, reliance was placed on the forecasted data available in the market “....*that was in-house assessment but based on the market forecast which was done by an independent outfit...*”, says senior manager Business Development. The value determining process did not meet the desired requirements on account of: restricting to only one method; not taking risk factor into account by adjusting the discount rates; and non involvement or independent feedback from the outside experts on different components which were the main areas which and should have been addressed professionally. However, the value so determined was appropriately followed while negotiating the price for the transaction. Approvals required for the finalization of the transaction were rightly obtained and reservations of the concerned person, in this process, were either addressed or brought to the notice of the approving authority.

Assessment process, followed after the execution of the transaction, was more controlled among all the three elements of the business evaluation. The parameters; covering financial, technical and marketing aspects, were rightly defined and duly approved by the concerned committee. The monitoring process undertaken was reasonable as processes were adequately defined. The approvals for the assessment were effective and based upon well defined reporting mechanism, and feedback from concerned departments was up to the satisfactory level.

While establishing a chain relationship of one component with the other, one can comment that inappropriate assessment of target firm viability and weaker layout of the transaction negatively impacted the valuation parameters and the value determination processes. Because of the negative intensity of these factors the performance assessment, though reasonable, could not make positive contribution to the fate of the transaction.

6.3 Case 3: Merger of TM and SP

6.3.1 Overview

This case study unlike the earlier ones is related to merger, the parent joint venture firm named as “TM” merged with other firm “SP” and formed new joint venture firm as “TM-SP”. But the shareholding pattern of the new firm was so lopsided that TM at the outset was its 80% shareholder. Resultantly, the management control impact was like that of an acquisition. Irrespective of the nature of the transaction, whether in the form of merger or acquisition, as far as this research study and its scope is concerned the mechanism or

processes involved for selection, valuation and performance measurement are not much different.

According to the parent firm at the time of the merger the economic environment had been severe, marked by a strong decline in demand for the semiconductor products, unsaturation of production capacities and reduced visibility on market trends. To overcome the situation, TM embarked upon maintaining and enhancing the market share through the development of new products and by targeting new customers and sockets.

6.3.2 The Acquiring Firm

TM was formed in June 1987 by the merger of semiconductor companies G of Italy and T, the semiconductor arm of FT. At the time of the merger, the firm had a different name but it took its current name in May 1998, following the withdrawal of SA as an owner. In December 1994, the firm completed its initial public offering on the Paris and New York stock exchanges and later on in 1998 it was also listed on the Borsa Italiana in Milan.

By 2005, TM was ranked fifth, behind Intel, Samsung, Texas Instruments and Toshiba, but ahead of Infineon, Renesas, NEC, NXP, and Freescale. The firm consisted of following product groups, and each group was composed of several divisions or business units.

- a) Mobile Multimedia Communication
- b) Memory Product Group
- c) Automotive Product Group
- d) Micro, Power and Analog Group
- e) Computer Peripheral Group
- f) Front End Technology and Manufacturing

Each division was responsible for the design, industrialization, manufacturing and marketing for its own product portfolio. Operations were assisted by a central R&D organization and the local sales offices.

The firm had been involved in developing Micro Electro Mechanical Systems (MEMS) since 2001. The research and development was initially done at the firm's Castelletto site but since its closure in June 2006, MEMS activities moved to the Agrate main fab. Following an earlier failure, TM stayed out of the volatile markets for DRAM and PC microprocessors. In 1994, it attempted to launch compatible Intel 80486 microprocessors, in partnership with American firm Cyrix. Only one model was

completed, the 1995 Cyrix M1 microprocessor, which was intended to compete with Intel's Pentium family.

a) Management Structure of Acquiring Firm

The pattern of the shareholding of the acquiring firm was such that above 70% represented public and the rest of them by three different companies from France and Italy each having holdings in the range of 13% to 5 %.

On behalf of the shareholders, managing board and supervisory board looked after the affairs of the firm. In accordance with Dutch law, the management was entrusted to the Managing Board under the supervision of Supervisory Board.

- i) **Managing Board** - consisted of such number of members, as resolved by the shareholders' meeting upon the proposal of the Supervisory Board. The Supervisory Board, by a simple majority of the votes, appointed the members of the Managing Board for three-year terms upon a non-binding proposal. If the Managing Board were to consist of more than one member, the Supervisory Board would appoint one of the members of the Managing Board to become chairman of the Managing Board for a three-year term.
- ii) **Supervisory Board** - members, at least six, of the Supervisory Board were appointed by the shareholders' meeting for a three-year term, upon the proposal of the Supervisory Board. The Supervisory Board could make a proposal to the shareholders' meeting for the suspension or dismissal of one or more of its members.

The supervision of the policies and actions of the Managing Board were monitored and supervised by the Supervisory Board, which in the two-tier corporate structure under Dutch law, was a separate body and fully independent of the Managing Board. In fulfilling their duties under Dutch law, the Supervisory Board members served the best interests of all TM's shareholders and other stakeholders, as well as those of TM's business. The members of the Supervisory Board were selected on the basis of their combined expertise, their knowledge of TM and its affairs, and of the business in which TM operated. Various committees on various issues, relating to affairs of the firm, assisted it. To ensure independence of its members they should have no material relationship with TM or any of TM's consolidated subsidiaries, or TM's management. (2008 Annual Report of STMicroelectronics N.V. p.42)

b) Business Strategy of Acquiring Firm

The strategy was designed to focus on the complementary key elements: broad, balanced market exposure, product innovation, customer-based initiatives, a global integrated

manufacturing infrastructure, reduced asset intensity, research and development partnerships, integrated presence in key regional markets, product quality excellence, sustainable excellence and compliance and creating shareholder value.

Resultantly, TM and SP (GENEVA, SWITZERLAND) agreed to combine key wireless operations to form a joint-venture firm with strong relationships with all major handset manufacturers. The merger was planned to be well positioned for Universal Mobile Telecommunication System (UMTS), the emerging 3G Chinese standard and other cellular, multimedia and connectivity capabilities including Wi-Fi, Bluetooth, GPS, FM radio, USB, and Ultra Wideband (UWB). The new set up integrated the Silicon Laboratories' wireless and GN's GPS operations that were recently acquired by SP. This helped the two European chipmakers better compete against U.S. players, Qualcomm and Texas Instruments, in the fast growing segment of the chip industry.

The combined venture was planned to be created from businesses that together generated \$3 billion in revenue in 2007 and was expected to own thousands of communication and multimedia patents. It was expected to have both the scale and expertise to pursue the R&D investments, necessary to establish itself as a leading player in the wireless and mobile-multimedia market. The new firm was structured to combine key design, sales, marketing, and back-end manufacturing assets from both companies, and for wafer-fabrication services, it would rely on its parent companies and foundries.

"The strength of this venture is its excellent relationships with key customers, as well as the complementary IP and product portfolios transferred from TM and SP that create a rich and broad offering with the capability to deliver leading-edge innovations to the market. Its strong positioning leads us to expect immediate and future top and bottom-line synergies for the exciting new enterprise and establishes a powerful foundation to build on its parents' 2G, 2.5G, 3G, multi-media and connectivity efforts. This combination will form the basis of the success of the new venture." President and CEO of TM."

"The wireless semiconductor industry requires huge investments in new technology and innovative product roadmaps. This move will see two strong players propelling themselves into a leadership position. By creating this joint venture, we put most of the competitors at a distance. Together we will accelerate innovation, which we anticipate will contribute to market share gains and improved financial performance". President and CEO of SP, said in the same statement."

6.3.3 The Target Firm

SP was incorporated in Netherlands and specialized in semi-conductors business for 3G technology. It had Nokia, Samsung, Sony Ericsson, LG, and Sharp as its main customers. This transaction helped TM in not only gaining the technology which would have taken significant amount of time and expense to develop, as well as pretty good size customer base, enabling it to penetrate swiftly with sound market footing in the wireless industry's mobile semiconductor kingpins including Texas Instruments and Qualcomm.

6.3.4 Transaction details

a) Acquiring 80% shares

The two Europe-based companies in April 2007, announced plans for the venture, agreeing to combine their respective mobile and wireless businesses by forming a new firm called "TM-SP". The new firm, Headquartered in Switzerland, was among the few companies with the scale to make the R&D investments. It combined key design, sales and marketing, and back-end manufacturing assets from both parent companies and relied on its parent companies and foundries for wafer fabrication services.

Based on the combined 2007 revenue, TM-SP was expected to enter the market in number three position. The merger combined the world's third and fourth biggest wireless chipmakers, which in aggregate had about 10 percent of the global market in 2007, according to iSuppli. Qualcomm had about 18 percent and Texas Instruments had roughly 16 percent. The joint venture counted on Nokia (NOK1V.HE), Samsung (005930.KS) and Sony Ericsson (6758.T) (ERICb.ST) among its customers. Nokia got out of the semiconductor business last year and gave TM a head start in licensing its wireless technology.

According to the partners, *"the new company will be a solid top-three industry player and among the few companies with the scale and expertise to pursue the R&D investments, necessary to establish itself as a leading player in the wireless and mobile-multimedia market. Specifically, Netherlands-based SP and Switzerland-based TM noted the UMTS, Wi-Fi, Bluetooth, GPS, FM radio, USB, and ultra wideband markets as points of focus for the joint venture"*.

As a part of the agreement, TM paid SP \$1.55 billion for an 80% stake in the joint venture. They also agreed on a future exit mechanism for SP's ongoing 20% stake, which involved put and call options, exercisable beginning three years from the formation of the joint venture, at a strike price based on actual future financial results, with a 15% spread.

While the joint venture was planned to be fables, it planned to operate its own assembly and test facilities in Calamba, Philippines, and Muar, Malaysia. SP's Calamba site as a whole was transferred to the joint venture, and part of TM's back-end operations in Muar was separated from the parent firm's existing facility in the area and transferred to the joint venture. The merging companies expected more than \$250 million in annual cost synergies from the joint venture by 2011.

"This transaction strengthens our wireless business and enhances our leadership position in an important market segment, we have targeted for expansion and external growth. Coupled with our recent deconsolidation of flash memory, it further proves our execution in reshaping TM's product portfolio towards value and leadership. This, together with our recently announced decisions on distribution to shareholders, demonstrates our commitment to improving shareholder value", said President and CEO of TM-SP.

iSuppli, a research firm, pointed out that global handset market was 1.15 billion units in 2007 and it was forecasted to grow at about 8% compound annual growth rate through 2011. The handset semiconductor market represented 14% of the global semiconductor, total available market in 2007, making up the second largest segment of the industry. The joint venture saw support from Nokia, number 1 handset maker.

"The wireless semiconductor industry requires consolidation, we welcome the emergence of this joint venture creating a strong player serving the top mobile phone manufacturers, understanding the needs of these customers and providing the required speed of innovation", said senior VP of sourcing and procurement with Nokia

Some analysts said that TM, which made chips for third-generation phones with high-speed Web links, might have overpaid for the SP business, which sold chips for second-generation phones with slower Web connections.

"My first-blush reaction is that it looks like a lot of money. But on the flip side, it's a positive that we're consolidating the industry", said American Technology Research analyst Doug Freedman.

Another analyst, John Dryden of Charter Equity Research, said that TM was *"taking on increased exposure to a declining and highly competitive market"* rather than expanding its share of the wireless chip business.

The consideration of the transaction was worked on the basis of detail of assets and liabilities as on August 2, 2008 given in Table 9.

Table 9: Calculation for consideration of Merger of TM and SP

Particulars	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Property, plant and equipment	277	31	308
Intangible assets	-	879	879
Inventories	194	110	304
Marketable securities	-	-	-
Cash and cash equivalents	33	-	33
Trade receivables	51	-	51
Other receivables	79	(5)	74
Other assets	13	-	13
Other liabilities	(115)	-	(115)
Deferred tax liabilities		(40)	(40)
Net identifiable assets and liabilities	532	975	1,507
Goodwill on acquisition			621
Minority interest			(301)
Purchase consideration		1,807	
Direct costs attributable to acquisition		20	
Total purchase consideration		1,827	
Less:			
Value of non-cash assets exchanged		(256)	
Cash and cash equivalents acquired		(33)	
Cost accrued		(20)	
Cash flow effect		1,518	

(Source: Annual Report for the year 2008)

The purchase price allocation was based on a third party independent appraisal. It applied to the assets received by TM-SP from the minority interest holder. The assets acquired by TM-SP were recorded at book value from the minority interest holder plus an increase to reflect the fair value (Annual Report of STMicroelectronics, 2008). In addition to the amounts, shown in the table above related to the minority interest, the minority interest in TM's equity also increased by \$149 million to reflect the book value of the non-cash assets included in the consideration.

b) Acquiring remaining 20% shares

The TM-SP purchase agreement provided TM with a call and SP with a put option on SP's non-controlling 20% stake in the new firm. Based on the original terms of the purchase agreement, the options could be exercised for three years after signing of the agreement. The strike price was depended on TM-SP's performance and determined by a weighted EBITDA and revenue multiple. The put strike price was about 17.5% higher than the call strike price. The price agreed was \$ 92 million, making TM owner of 100% shareholding of the joint venture firm. This move was part of the planned merger of TM with EN. In contrast to the price paid for acquiring controlling shares of 80%, the price paid for 20% shares was around 140% higher, though the price paid for 80% shares included the controlling premium as well.

“We understand the desire of TM to call our 20% stake in order to expand the TM-SP joint venture with EN. We support the next step that EN and TM are taking to create the global leader in wireless semiconductors. To help ensure the success of the joint venture

going forward all SP's supply and support agreements will continue as planned” , FH, CEO of SP.

6.3.5 Merger with EN

Concurrently to the signing of the TM-SP transaction, TM entered into negotiations to create a new group of entities with EN Mobile phone. TM-SP planned to become a part of this new group of entities. In this regard, STMicroelectronics and SP agreed in a side letter just after signing the initial agreement, that TM was eligible to accelerate the call option in the event of the closing the new transaction. The agreement provided a future exit mechanism for SP's interest, which involved put and call options that were exercisable prior to the closing of firm's agreement with EN, announced on August 20, 2008, to establish TM-EN.

The TM-EN joint venture relied on its platform offering, which included modems, multimedia, and connectivity solutions for 2G/EDGE, 3G, HSPA, and LTE technologies. It also included all hardware, software, and support to allow handset manufacturers to develop mass-market products.

“By combining the complementary strengths and product offerings of EN and TM in platforms and semiconductors the joint venture is well positioned to become a world leader. The industry continues to develop at a swift pace and customers see benefits from our broad offering. This partnership is a perfect fit and secures a complete offering, as well as the necessary scale for technology leadership”, said CH President and CEO of EN.

The joint venture was agreed on 50-50 basis, and EN paid \$700 million to TM, and put a further \$400 million into the venture. The new firm expected sales of \$3.6 billion, focusing on current and future mobile telephony technology to rival that of Qualcomm and Supply four of the world's five leading handset makers.

6.3.6 Findings

Interview of Director of Merger and Acquisition Department was conducted, which has been summarized in accordance with the research *areas, details are given below:*

a) Selection of Target Firm

The governments of France and Italy had controlling shareholding in the TM group, on the board level they were represented by the nominee members – not having their personal interest in the affairs of the group, and did not have technical background to understand the intricacies as well as the technical side of the business. *“These nominee*

members, apparently, had a controlling say in decisions made, but they were largely dependent upon the input of CEO of the group while making significant decisions including Merger and Acquisition transactions”, says Director Merger and Acquisition. Hence, the true ownership of such transactions was with the CEO. Though, depending upon the size of the transaction different approval were defined, varying from the head of the business units, committees and finally the managing board, for the larger transactions. However, the formation of such committees and appointment of the business unit heads were directly or indirectly linked with the nod from the board influenced by the CEO. Accordingly, the benefits that a group or firm could gain from balanced board, in terms of expertise in different areas of the business as well as control over the decision making process, were dithered by the composition of the shareholding of the group.

The Merger and Acquisition Department – mandated with the job of evaluation of M&A transactions, undertook selection of the firm from the list provided by the relevant business unit. The process of selecting target entity started from analyzing P&L - profit and loss statement - of the short listed targeted companies. Breakdown of the P&L into different components enabled them a lot about the firm: how the market valued it and how it could be improved. *“I would look at company’s P&L statement and say here’s an engine of the company that is producing or that is generating revenue, within that you start breaking it down into the different groups and estimating their viability”, says Director Merger and Acquisition.*

According to the director, Semi Conductor business was composed of several different types of businesses segments having different business models. Such segments could be like industrial, automotive segment, consumer segment, wireless, computer peripheral segment making discrete components. The viability of M&A transaction was, thus, dependent upon the viability of the segment or combination of segments that were focused.

Director Merger and Acquisition expressed that micro controller industry comprised of three components; analog, discrete and digital. Each of these components had their own characteristics, laying down basis for the M&A transactions, depending upon the objective of the transaction, defined by the acquiring firm. Analog sector was characterized by high growth margin, usually lower volume of products and high customer diversification, and involved lot of engineering design that could not be easily replicated across companies. The discrete component business was more like a commodity type business broken up into; lower power more commodity type products, higher power less commodity type products and specialty products. It had its own set of

drivers but it was characterized by lower growth margin, utilizing more or less fully depreciated fabrication facilities, and generating decent kind of net margin.

On the other hand, the digital business was characterized by usually little bit lower gross margin than the analog business but higher than the discrete one. *“Digital businesses are usually kind of big component, big guys with a lot of people and lot of R&D resources in it. Constantly absorbing all the functions around it and is competitive enough that it can be done almost anywhere, you can see that in US, Europe, China and Japan, across all these continents”*, says Director Merger and Acquisition. Digital business had moved more and more into called the ASSP business, which really was one solution to multiple customer markets. Its transformation had gone from being customized to being very general purpose, absorbing lots of functions and different kinds of standards. It was a very competitive business.

These three types of businesses, like any other semi conductor industry, prevailed in TM as well. However, for M&A, they were focused on analog because it was very high growth business characterized by very advanced operational amplifier. *“It’s a very highest growth portion of the semi-conductor market I believe, and my focus for TM is growth in this area. Over the years our growth margin remained in between 35-40%, where these businesses generate greater than 50% growth margin. The adoption of this growth margin effect, we expect, would flow down to the bottom line”*, says Director Merger and Acquisition.

The other components were not considered because the discrete business had lower growth margin profile, and was not capable of impacting the growth margin line of the firm. The digital business, on the other hand, was characterized by 15% growth margin but required high R&D expense. The fundamentals of such industry changed as such companies were initially funded by venture capitalist (VC) and later on such funds were not available. Further, because of VC involvement not much funds were spent on innovation, which was necessary for growth of such industry.

During the selection process, they used to assess the advantages of going to different markets emanating prospective growth in the business like maneuvering the market, which was smaller in size. The first objective of analyzing P&L was to see how the market and P&L could be improved to increase the worth of the firm. *“We are doing these Merger and Acquisition either to survive, to gain some position in a certain market, to have some advantage that is sustainable for the company”*, says Director Merger and Acquisition.

It can be concluded that the objective for undertaking the transaction, was greater economies of scale to better meet customer needs in 2G, 2.5G, 3G, multimedia, and future wireless technologies, as it would be having all major handset manufacturers as its customers. The objective, though, was not very specific, and it was undertaken by TM, like any other M&A transaction, to satisfy the broader objective of growth of the group. As such, no specific study, to justify the objective of entering into the transaction, was independently carried out. And approval of the board or designated committee on case to case basis, for selection purpose, was not desired. Generally, such approval, in other M&A cases is considered as a backbone of the transactions.

The companies, finally shortlisted by them, were those that were going to have positive impact on the acquiring firm. TM, like other European companies in the past, had focused on US for M&As but it did not result in lots of good luck, as the things like the culture and integrating people into TM model structures, dither success. *“If I have a world class manager on my side, I would make efforts on the integration process combining both the companies, paying attention and motivating people working with both the acquiring and target company. But if I have people that are less motivated and I am trying to make a transaction for them, I have to think that my internal odds are against me”*, says Director Merger and Acquisition. Hence, at the time of selection of the companies integration or restructuring of the selected entity with the acquiring was given due weightage, though, this was not based upon some thorough study undertaken by engaging some independent professionals.

They, though, avoided short listing companies, which were too much diverse, had too many segments, had too many products and had too many businesses but not enough core business in any one area in which to grow. *“If the company has got you know 20% here, 20% there, 20% at other place, 10% here and 10% there, then that means they are all for me to actually get multiple successes in all these and I must be able to generate enough money on that to do it, that’s the problem”*, says Director Merger and Acquisition. Those companies which were richly valued were also not preferred as they could not produce enough revenue growth to ensure justifiable ROI or in most of the cases required greater amount of efforts to grow to the desired level to justify the transaction.

“Process of selecting companies required patience because we are looking around like 200 companies in a year but hardly 10% of them are given deep look”, says Director Merger and Acquisition. List of the selected or shortlisted companies was provided by the concerned business unit to the Merger and Acquisition Department to identify the suitable ones. But, in this case, after the cleansing process they were finally left with less than 5

that were interesting because: they had a good core business; had something that matched with their needs; were going to overlap and result in loss of business but had the ability to gain more sales through synergy.

Prospective M&A transactions could be initiated from different sources like coming from Merger and Acquisition Department, identifying companies that could serve the objective of the group growth or another type coming from other divisions and groups. “...saying ‘hey, we are interested in this company, can we go buy them?’ which is very good because I don’t have to prove it to them”, says Director Merger and Acquisition. This transaction was identified by the relevant business unit, so the ownership rested with them. But when the ownership of M&A team was less, then, the corporate people were more responsible if the M&A would be unsuccessful. Ideally, it should be the ownership of the Merger and Acquisition Department, as they knew something about this process of evaluating the companies. They were the right people to look at the technology and many other factors, which would help to make the transaction meaningful. Accordingly, they always wanted to have complete ownership of the P&L.

After selection of the target firm they contacted its management to sign NDA. The emphasis in this transaction was the technology the target firm had developed and because of it they had a customer base dependent upon them. Pre-diligence was done after the selection of the firm, which could be little bit different in every case, having different factors on their plate. In the pre diligence phase they assessed that what did the firm want as a consideration for the transaction, and the Merger and Acquisition Department were the right people to see if there was any justification behind it. Therefore, they did their own valuation at that stage.

At the selection stage, the mode of the settlement of the transaction was given due consideration but as such its analysis with reference to the selection of the target firm was not thoroughly done. Similarly, shareholding pattern after the transaction was also thought about but not as a part and parcel of selection process or by undertaking related analysis. The department indulged in selection did not undertake the valuation.

b) Valuation of Target Firm

Most of the part of the valuation process was done at the time of selection of the target firm as lot of data was available with them at that stage. “*They do not have to do the things again, they simply get the data and come up with some valuation figure*”, says Director Merger and Acquisition.

“So once we decided about the target company, due diligence was carried out by in-house team of experts without seeking outside professionals help as we were quite equipped to handle such issues”, says Director Merger and Acquisition. This was used to cover all the financial, technical, legal and marketing related issues. In this process they used to go through the working so far done as well as pre-diligence that had been undertaken by the Merger and Acquisition Department. While evaluating the strategic rationale of buying the firm, they looked into the aspect of aligning synergy with their own group, customers and penetration of market segments, geographically or product wise. Like every big firm, they also had a long due diligence list also covering risks related to the patents, propriety rights market risks with customers, to be complied with. Where, the diligence on human resources and finance was pretty straight forward and there were not too many surprises.

TM had its own finance, marketing and technical teams to undertake this process. Where legal firm and HR consultants were engaged from outside to perform due diligence related to such areas. *“As far as the technology part is concerned it is our field and we don’t need any help from anybody else from outside. That is our core business and other companies do come to us for diligence”,* says Director Merger and Acquisition. After satisfactory due diligence, the management gave their nod to move forward and signed LOI (letter of intent).

LOI approval from the committee, formed for the purpose, was obtained on the basis of report prepared in-house to determine the worth of the firm, most of the data contained in the report was based upon the working carried out in the pre-diligence stage. However, formal feedback from the respective departments on the issues related to them was formally not sought. The letter of intent mentioned that they were interested in buying the firm, the offer amount, timings for the close of the transaction, kind of deal – either buying the firm shares or assets, stating the number of shares to be purchased etc.

So, interestingly, selection justification and the valuation processes were handled in isolation by different departments. *“So normally at smaller acquisitions you are just buying the assets and hiring the people and do not have any other liabilities and in larger deals you have to merge, or you might have to buy the company’s shares”,* says Director Merger and Acquisition.

First step in the valuation process was to identify whether the acquisition shall be operated as a standalone unit or shall be combined with the existing setup. The questions, further, needed to be addressed were: how their revenues would be growing? In which

market they were interested in and why? Generally, the valuations were carried out on multiple ranges of different parameters, the first parameter of valuation was PE ratio, so first they had to look at the earnings to sales ratio and then Market Value factor was considered. In this working revenue was more significant, that how it could be raised and then at a later stage they looked at the apex, which did not change much in case of large companies. But the element of market value in PE ratio was not considered to be more relevant in terms of M&A valuation. The other parameter was based upon the earnings to sales, gross margin was interesting, from this perspective, because it could be significantly improved with the induction of target firm. This could also dramatically improve the R&D ratio, as one needed to have core people, to multiply the sales.

Apart from P&L perspective, there was synergy perspective as well, which was based upon sales synergy, that one really needed a good feeling of the market by knowing the customers and the market. If the transaction was too customer centric then one could end up with limited customers' option, if such customers disappeared then the results of the transaction would be totally different. *"...unfortunately this significant issue was completely ignored while going for the transaction under study and reliance was placed on only one customer taking care of major junk of the sales..."*, says Director Merger and Acquisition.

Other than sales, the other synergy option was the cost factor, so combining both the companies could drastically reduce the number of employees, because of duplication of sales team. P&L was also adjusted for other likely post merger restructuring measures to arrive at realistic financial projections to help in determining the consideration.

Valuation was undertaken by focusing on P&L but after incorporating the impact of different synergies, that how they were going to work under the post merger or acquisition scenario. *"...broadly during valuation we normally consider two types of synergies: positive and negative synergy. The positive synergy is that new sales shall be added or reduction in expenses shall be caused. Where the negative synergy on the other side causes loss of sales or increase of expenses, reduction in sales could be because customers of the merged entity would not like to continue with you. For valuation one should, therefore, look into integrated P&L account likely to emerge after the transaction. Improper understanding of the customers' base and how they would react in future period can lead to failure of the transaction"*, says Director Merger and Acquisition.

Also other method of valuation, by referring to the similar transactions of similar companies in the recent past, was applied. But the method of DCF commonly used in the market was not considered as it was not reliable and could be easily manipulated to get the desired value. *“... DCF is a very dumb game....to me it is a valuation but it is one that has less and less meaning because of its high chance of manipulation...”*, says Director Merger and Acquisition.

Out of all the methods, P&L was considered to be more reliable, according to them, it ensured guaranteed return by adding to the existing figures the effect of new markets and other new things that would likely incur. Similarly, risk factors involved in the transaction - other than the impact of economic disaster or something unforeseen that might take place - in terms of sales, R&D and expenses, were also embedded in the P&L. This gave them range where the value of the transaction should fall which was required for negotiating the consideration.

“Where in case of DCF you really don’t know so much, it’s just charging the hurdle rate which costs the capital for the acquisition. You cannot relate the transaction to the risks it covers, so the degree of certainty in this method is really low. Smarter people prefer P&L method over DCF”, says Director Merger and Acquisition.

In case of “market comparables” method, they followed two methodologies: one was looking at specific competitors that were closest to the target firm; and the other one, when comparable was not available, was to consider the range of competitors in that market segment like public listed companies, and applying multiples to them. Such multiples were applied to either: earnings to sales; earnings to assets; and earning to equity etc. Further, to the worth so determined impact of control premium was added, which ranged from 25 to 50% for semi conductor companies. The technology side was also considered that how much money and time they would have spent to attain it, particularly, in case of smaller companies the value of technology was greater than the value of the firm itself.

“The value creation potential assessment was a mistake that was made at the time of making evaluating the target company in case of transaction under consideration. It was not unusual in semi conductor industry, which had witnessed a lot of failures too in the development of technology like every company had a lot of failures in the development of the new products. So, we cannot say that Merger and Acquisition is good or bad, we have to compare to Merger and Acquisition being good or bad verses our own internal ability to generate stuff too”, says Director Merger and Acquisition.

The approval for the transaction, valuation and related matters was segregated in four different groups, who were involved in it: the group who's sponsoring the deal, the corporate strategy; the Merger and Acquisition Department; those responsible for finances, corporate finance group; and the legal group. *"With this combination you have strategy, the numbers, the liabilities and legal people taking care of all of those risks represented in the P&L. So, these are the groups that are working on mainly on all deals and promoting them to an end"*, says Director Merger and Acquisition. While getting approval for the value from the management a range of minus/plus variation, while carrying out the negotiations with the target firm, was agreed. The consideration, finally agreed, was within that range and they did not have to undertake the viability assessment again based on agreed price.

Approval for the transaction was initiated by way formal report containing comments of the concerned departments. There were divergent views of the departments but finally point of view of CEO prevailed. In most of the companies' corporate strategy group was doing everything, so it was much easier and completion of acquisition process was smoothly undertaken. Where in this case things were different as varied groups or business units, having different views, were involved in the M&A transactions. The group, of course, that had sponsored the deal was always positive for it, but the other group might kill the transaction as they thought that the future market was not with it.

So it all depended upon the approach of each group like finance group agreed to none and opposed to almost every proposal, which meant that they were not helping the organization. Compared to them, legal group was clear on legal issues but they had not much opinion on the business. Because of such complexities as well as due to the dominance of CEO, at times transactions which were not good for the group and might cause a big loss to the business might be forwarded for approval.

"So we have different groups: always saying 'yes' – the group which is sponsoring the deal; then we have another group always saying 'no' – which is our finance group; and business development group (Merger and Acquisition) in the middle, killing the ones that are not really going to make it, and sponsoring the ones that we feel is good", says Director Merger and Acquisition.

c) Performance Assessment

Post acquisition integration or restructuring and implementation were the key source of performance of acquisition for multinational acquisitions because of difference in cultures and the way of doing things. Before acquisition, companies were independent in

operations and decision making, where afterwards, generally, they had to follow the norms of the acquired firm. *“So, the restructuring or integration is very important, and one has to think about it from day one means at the time of selecting firm. Here at TM we do that by involving people into the TM’s steam, into the TM way of doing things. So the newcomers get used to the people, they know who they can go to, to get answers, they know how things work, they used to see the people and they feel comfortable”*, says Director Merger and Acquisition.

It was so important to have that culture from day one and the acquisition was just transitioning them into the firm. This practice was religiously followed in this as well as the rest of such transactions undertaken by the group.

While carrying out the valuation of a business, one had to look at the past and the future to define the assessment parameters *“.... understanding about the market helps: who is gaining and who is losing; who will be there as mass integration leader; how would the market change, evolve, and consolidate. So that we understand the forward thinking and not just look in that mirror back and see what’s coming”*, says Director Merger and Acquisition. Unfortunately, this was not properly done in this case and hence performance assessment could not be satisfactorily done.

The basis of defining parameters for the selection of target firm, its valuation as well as the performance assessment in the post acquisition period should be, logically, the same and desirably handled by the same department or separate department thoroughly integrated. On the contrary, as per processes so defined, in this transaction the initial assessment for the selection and pre-diligence including tentative valuation was done by the Merger and Acquisition Department, where the final valuation as well as the performance measurement were undertaken by the concerned business unit, aloof from the rationale developed for the selection of the firm. This disconnect was also the reason for not up to the mark valuation and performance assessment.

The responsibility for the performance assessment, hence, rested on the head of that unit. The management was of the view that it was not Merger and Acquisition Department task, and performance had to be measured in terms of sales and other key factor, which were in the control of the business units. *“To look back at some of the investments we made in the past, there may be different reasons for Mergers and Acquisitions for such transactions. On account of such reasons the basis of the investment, its valuation and performance measurement criteria was determined. So the faulty basis led to inappropriate valuation and performance assessment”*, says Director Merger and

Acquisition. This point of view was substantiated by quoting an acquisition transaction where the consideration was equivalent to the cost of technology license owned by the firm as well as its customer contacts. But on the other side it was running into losses.

They thought that in this case, like others, P&L generated at the time of valuation was the right basis to measure the performance, the concerned business units had its ownership and they were required to evaluate the performance by comparing the P&L prepared at the time of valuation with the one generated on actual basis.

“There is no separate department mandated in this regard, nor do we have any independent team engaged for the purpose, simply we talk to the guys of the respective business units, if required. The main guy we are looking for is the P&L owner, not anybody in corporate. Finance guys don’t have any effect on the company but they can stop it from generating any revenue by not investments or whatever. If we involve corporate people in the process of performance assessment that would not make any sense”, says Director Merger and Acquisition.

Merger and Acquisition Department, though, didn’t approve the selection of target firm but it was providing service to the business unit’s head like many other different departments, and was aware of what was and what was not viable for the group, in that sense it was very much a partner to them. The performance assessment function, hence, was not separately assigned to any group established objectively for the purpose and remained involved in the entire M&A transaction process rather it was the responsibility of the one who owns it. *“In case the transaction is small, the business unit head is responsible, when the size is bigger it belonged to division or a group, and when it is large one then CEO of the company was responsible for it and directly answerable to the board of directors”* says Director Merger and Acquisition.

The basis of performance assessment was only P&L account, and no other predefined format or criterion was used for the purpose. Further, in the group no well-defined mechanism existed for such assessment. To look into the reasons for non-performance, cases were never referred back, as a part of process, to the Merger and Acquisition Department, who made the decision on the selection of the firm, as well as to those who were involved in the valuation process.

Apparently, all the three processes of business evaluation were not undertaken as a chain process rather carried out in isolation from another by different set of staff members. Since, P&L was used as the only tool for the performance assessment, the possibility of taking into objective or intangible factors, behind the transaction was not evident.

6.3.7 Analysis

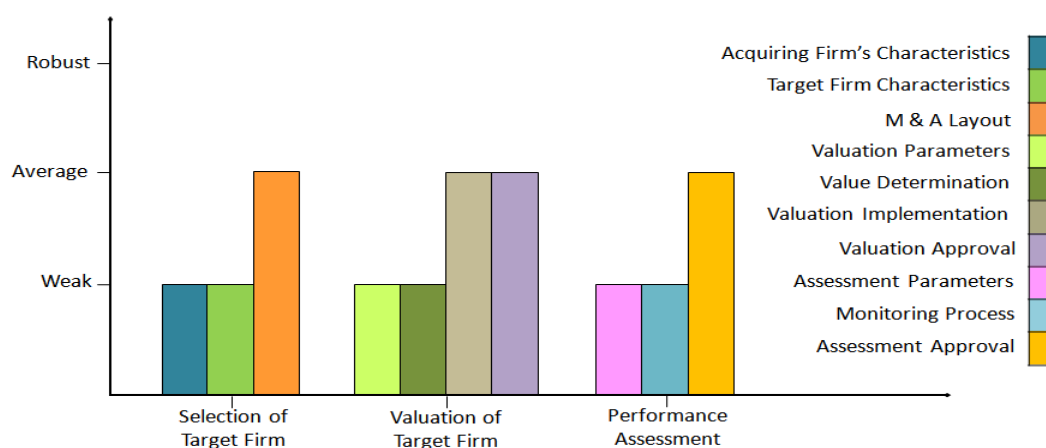
The analysis of the case study has been carried out by using parameters defined in Research Methodology section, in the manner given in Table 10:

Table 10: Analysis of Merger of TM and SP

Processes	Selection of Target firm	Valuation of target Firm	Performance Assessment
Acquiring firm's Characteristics	Weak		
Objectives	Average		
Management structure	Weak		
Viability Assessment	Weak		
Target Firm Characteristics	Weak		
Potential Assessment	Weak		
Impact Assessment	Weak		
Merger and Acquisition Layout	Average		
Selection Parameter	Average		
Shareholding Structure	Average		
Mode of Settlement	Average		
Approval	Average		
Valuation Process		Weak	
Valuation Parameters		Weak	
Value Determination		Weak	
Valuation Implementation		Average	
Valuation Approval		Average	
Assessment Process			Weak
Assessment Parameters			Weak
Monitoring Process			Weak
Assessment Approval			Average
Aggregate Evaluation	Average	Weak	Weak

The graphical presentation of above table has been expressed in Figure 14:

Figure 14: Analysis of Merger of TM and SP



Of the above three components, the basis of selection of the transaction was not well worked out to cause or define reliable valuation and performance assessment criteria. The misery was, further, added by the shortcomings of the processes relating to the valuation and performance assessment, which caused weaker outcome of such components, and ultimately unsuccessful outcome of the transaction.

Analysis of the “Selection of Firm” reveals that the overall average rating was based on weak assessment of the acquiring firm about the transaction. The objective for entering into the transaction was not very specific rather broadly defined, following the trend in the industry. “*..we are doing these Merger and Acquisition either to survive, to gain some position in a certain market, to have some advantage that is sustainable for the company*”, says Director Merger and Acquisition. Balanced structure of decision making body; comprising professionals from related areas of expertise as well as representing variety of stakeholders, which could pursue professional and unbiased decision making process, was missing and CEO’s willingness prevailed while making decisions relating to different aspects of the transaction. “*...these nominee members, apparently, had a controlling say in decisions made, but they were largely dependent upon the input of CEO of the group while making significant decisions like Merger and Acquisition transactions*”, says Director Merger and Acquisition.

The assessment of the viability of the transaction was undertaken in-house without seeking help from outside professionals, which is normally sought by the firms, in case of transactions of such significance, to have an unbiased view. Similarly, the assessment of the SP viability with reference to the future market, technical assessment as well as the base of the customers including related vulnerabilities and their eventualities were not thoroughly assessed. “*...unfortunately this significant issue was completely ignored while going for the transaction under study and reliance was placed on only one customer taking care of major junk of the sales...*”, says Director Merger and Acquisition. This, at a later stage caused non-viability of the transaction. Other issues relating to the transaction like mode of settlement, shareholding impact assessment were reasonably taken care of.

Valuation was based on weak parameters and value determination processes, thanks, mainly, to the weak viability assessment of the transaction at the selection stage and also to the valuation method adopted for the purpose. In this regard intangibles, specifically, were not given due weightage and assessment of future market condition and expected advancement in the technology was not rightly analyzed. Emphasis was placed mainly on the P&L account for the determination of the value of the transaction where DCF method,

generally followed in the technology sector, was not given due weightage and was not relied upon as such. “... DCF is a very dumb game....to me it is a valuation but it is one that has less and less meaning because of its high chance of manipulation...”, says Director Merger and Acquisition. Similarly, comparable transactions method, used along with DCF used as reference, can define a broader value range in which transaction should fall but cannot be used to precisely justify the valuation undertaken through some other method.

The price agreed for the transaction was within the range of the valuation carried out, and viability re-assessment was not desired. The process followed for the approval of the valuation was reasonable though the composition of the board and related matters, as stated in the selection part, was not satisfactory. Valuation is, generally, carried out by the department, responsible for the selection of target firm – assessing its viability and related factors assessment - as it is a chain process, but in this case both the processes were undertaken by different departments involving different people, this negatively impacted the outcome of the valuation process. “...business unit people responsible for the transaction do not have to do the things again, they simply get the data from Merger and Acquisition Department and come up with some valuation figure...”, says Director Merger and Acquisition.

Performance assessment process was also weak, stemming from weak assessment parameters and monitoring processes. This resulted into process, which was not robust enough to signify the deficiencies of the selection and valuation processes for immediate remedial measures to impact the outcome of the transaction. The monitoring process was weak, as it was not independently carried out by any department rather by the business unit which was the owner of the transaction and also did the valuation. “...there is no separate department mandated in this regard, nor we do have any independent team engaged for the purpose...the main guy we are looking for is the P&L owner, the business unit. Anybody in corporate, finance or other departments would not make any sense”, says Director Merger and Acquisition. Approval process because of its inherent weakness, as mentioned earlier, was not strong enough to highlight and resist the weakness of the processes followed or basis adopted.

Establishing relationship between factors of different components; not clearly defined objectives accompanied by weak viability of the transaction as well weak management structure of approving authority, deeply impacted the selection as well as valuation process. Because of the weakness of the viability assessment, the parameters for the valuation were not properly defined which negatively impacted the value determination

process. The performance assessment part was not effective enough to antidote the outcome of earlier components processes shortcomings.

6.4 Case 4: Afone Acquisition of Tfone Business in Italy and Spain

6.4.1 Overview

Afone through this transaction acquired Tfone businesses in Italy and Spain by taking over 100% shares of Tfone Italia and Tele 2 Spain through its subsidiaries Afone Omnitel N.V. and Afone Holdings Europe S.L. (Joint Venture Company) respectively, by entering into two agreements with Tfone Europe S.A., a subsidiary of Tfone AB of Sweden in 2007.

The two transactions were unitary in nature within the meaning of Article 3 of the Merger Regulation of USA: they were simultaneous as they took place between the same companies and were legally conditional upon each other. After buying Tfone's businesses in Italy and Spain, Afone poised to sell Internet access as well as traditional phone services. This positioned Afone, already one of the largest cell phone companies in the world, to take advantage of a move in the industry to bundle mobile and fixed-line services.

6.4.2 The Acquiring Firm

Takeover of Tfone's assets by Afone, a UK based Mobile Phone Company, in Italy and Spain was the firm's first acquisition outside its core mobile phone business. It strictly pursued a "pure mobile" policy in the past but diverted to provide fixed-line and internet services to more than two million subscribers. This acquisition was an effort to enable Afone to cement its position in Italy and Spain by adding broadband services to its mobile phone services in those territories.

a) Management Structure of Acquiring Firm

The Board was responsible for the overall conduct of the Group's business and had the powers, authorities and duties vested in it in accordance with the relevant laws of England and Wales and the Articles of Association. The Board had final responsibility for the management, direction, and performance of the Group and its businesses. It was required to exercise objective judgment on all corporate matters, independent from executive management, and was accountable to shareholders for the proper conduct of the business. The matters that fell in the preview of the board included:

- i) group strategy;
- ii) major capital projects, acquisitions or divestments;

- iii) annual budget and operating plan;
- iv) group financial structure, including tax and treasury;
- v) annual and interim financial results and shareholder communications;
- vi) system of internal control and risk management; and
- vii) senior management structure, responsibilities and succession plans.

The firm's Board consisted of 14 directors, in addition to the Chairman there were three executive directors and ten non executive directors. There was a Deputy Chairman, who was the nominated Senior Independent Director and his role also included conducting an annual review of the performance of the Chairman and, in the event it should be necessary, convening a meeting of the non-executive directors. Under the laws of England and Wales, the executive and non-executive directors were equal members of the Board and had overall collective responsibility for the direction of the firm. Non-executive directors had a particular responsibility to constructively challenge the strategy, proposed by the Chief Executive and executive directors. The non-executive directors were generally not expected to serve for a period exceeding nine years.

The Board had established different committees by defining their terms of reference. Each committee had an access to such information and advice, both from within the Group and externally, this included the appointment of external consultants, where appropriate.

The executive directors, together with certain other Group functional heads and regional chief executives, met 12 times a year as an Executive Committee under the chairmanship of the Chief Executive. The Executive Committee was responsible for the day-to-day management of the Group's businesses, the overall financial performance of the Group in fulfillment of strategy, plans and budgets, and Group capital structure and funding. It also reviewed major acquisitions and disposals.

b) Business Strategy of Acquiring Firm

Acquisition was in line with a new strategy in the telecom and technology market, in which communication companies were jostling to provide all internets and phone services into homes. Afone conceded a year earlier to its acquisition move that as wireless markets would get matured and "converged", offerings incorporating fixed-line and other telecom services would become the new "hot" area, a mobile-only strategy was no longer feasible. The strategy turnaround came after a revolt by investors, who were unhappy about the share-price performance and a perceived inability by the chief executive to deal with challenges such as the arrival of Google and other internet operators within its domain. The revolt culminated in one of the biggest protest votes against an FTSE 100 chief, with

holders of 15 percent of Afone's shares refusing to back the chief executive's reelection. While reviewing the approach, CE pledged to adopt a predominantly "infrastructure light" strategy – leasing network space from other firms, rather than embarking on an internet spending spree. In contrast to Afone's new approach, Tfone had been selling parts of its European fixed-line businesses to focus, instead on retailing mobile phone services.

Commenting on the transaction, the Chief Executive of Afone said: *"This acquisition is consistent with our strategy of meeting our customers' total communications needs. It will generate substantial time to market benefits in Italy and Spain, where low broadband penetration and the market structure make ownership of fixed broadband assets attractive. We have now established a clear route to delivering fixed broadband services in each of our major European markets."*

As per form 6-k, filed by Afone with Securities and Exchange Authority (a corporate regulatory body), the key objectives, benefits and risks of the acquisition transactions were:

The key objectives were:

- i) Enable Afone to get benefit from the attractive, high growth broadband markets in Spain and Italy, as penetration increased rapidly.
- ii) Immediately deliver the infrastructure and broadband expertise, necessary for a competitive broadband offered in two of Afone's key European markets.
- iii) Capital expenditure requirements of Tfone Italy and Tfone Spain were not expected to materially impact the Group's ongoing capital intensity ratio in its Europe region.
- iv) Meet Afone's stated financial investment criteria and expected to broadly neutralize adjusted earnings per share in the first full year after acquisition, excluding the impact of acquired intangible asset amortization.

The principal benefits of the transaction to Afone, as projected, were:

- a) Enable Afone to benefit from the attractive, high growth broadband markets in Spain and Italy:
 - i) Approximately 44% of households in Italy were expected to have broadband services by the end of the year, up from 30% two years ago.
 - ii) Approximately 57% of households in Spain were expected to have broadband services by the end of the year, up from 33% two years ago.

- b) Acceleration of Afone's total communications strategy in Italy and Spain by immediately delivering the infrastructure and broadband expertise, necessary for a competitive DSL, offered in two of Afone's key European markets.
- c) Exploit strong existing platforms in Spain and Italy:
 - i) The acquisition of unbundled networks would enable Afone to get benefit from the scale benefits and improved economics of assets ownership.
 - ii) In both countries, Tfone would offer local loop unbundling coverage to major cities with the remaining nationwide coverage available through resale services.
 - iii) Afone planned to substantially increase local loop unbundling coverage within the next 12 months.
- d) Integration with existing Afone operations would significantly enhance Tfone Italy and Tfone Spain through:
 - i) Cost synergies arising from the use of existing network operations and infrastructure.
 - ii) Revenue synergies arising from cross-selling existing Afone products to the current customer base.

The risks involved were highlighted as follows:

- i) ability to realize expected benefits associated with the transactions as projected.
- ii) ability to successfully integrate the operations of Tfone Italy and Tfone Spain with its own operations, the continued growth in the market for broadband services in Italy and Spain and general economic conditions in those regions.

6.4.3 The Target Firms

Both the target telecom companies in Italy and Spain acquired by Afone, through its subsidiaries in both the countries, were owned by telecom group based in Sweden.

Tfone Italy reported revenues of €546 million and EBITDA of €6 million for the year ended 31 December 2006. In the six month ended 30 June 2007, revenue grew 8.5% to €298m, driven by direct access and broadband, which grew over 200%, EBITDA nearly break-evened in the period. Tfone Italy had approximately 100 employees. Following Afone, in Italy, other companies like Telecom Italia, Albacom (British Telecom), Tiscali and Wind (having both a mobile and a fixed network) made a convergent offer to combine fixed and mobile telephony.

Tfone Spain had 550,000 customers as at 30 June 2007, of which approximately 240,000 were broadband customers and 81% of these were on its unbundled network. Tfone Spain had approximately 3.5% of the Spanish broadband market based on number of customers and had been gaining market share over the past 18 months. The firm reported revenues of €253 million and EBITDA of €21 million for the year ended 31 December 2006. In the six month ended 30 June 2007, aggregate revenue of €133m was constant, but broadband revenue grew over 100%, where EBITDA in this period was €8 million, and had approximately 400 employees. Tfone Spain offered fixed broadband services through a wholesale agreement with mobile internet access via 3G handsets and HSDPA data cards. But its market shares, while considering both the markets for fixed and mobile Broadband internet access, was negligible.

6.4.4 Transaction Details

Consideration paid by Afone to Tfone against both these acquisitions transactions, in aggregate, was £ 457 million, out of this amount, entirely paid in cash, £ 1 million was paid out in 2007 and the rest of the amount in the year 2008. The amount was determined on the basis of the figures given in Table 11, as stated in the notes to the accounts of Afone for the year ended March 29, 2011. The initial purchase price allocation was determined on the basis of fair value of assets acquired.

Table 11: Calculation of Consideration for Afone Acquisition of Tfone Business in Italy and Spain

Book value adjustments Fair value	£m	£m	£m
Net assets acquired:			
Identifiable intangible assets	5	106	111
Property, plant and equipment	115	(11)	104
Trade and other receivables	149		149
Cash and cash equivalents	5		5
Deferred tax asset/(liability)	36	(39)	(3)
Short and long term borrowings	(6)		(6)
Provisions	(1)	(1)	(2)
Trade and other payables	(159)	2	(157)
Net Assets	144	57	201
Goodwill			256
Total consideration (including £6 million of directly attributable costs)	(1)	(2)	457

(Source: Annual Report of Afone for the year 2008)

Firm wise consideration was not officially available; news reports suggested Tfone's assets in Italy between £ 400 million to £ 560 million, or \$ 570 million to \$ 790 million. It is significant to note that in the third quarter, Tfone Sweden recorded impairment loss of goodwill of SEK 1.3 billion pertaining to its businesses in Italy and Spain, determined while undertaking evaluation process.

Wind, Tiscali and Fastweb, three Italian telecommunications companies, also expressed interest in buying Tfone's Italian assets, but Tfone preferred the Afone offer because it had also offered to acquire its Spanish business.

6.4.5 Pre and Post Acquisition Data Analysis

Acquisition resulted, in bundling of fixed broadband and telephone services at a fixed location in the respective countries, in the following manners:

- i) the retail market for fixed broadband internet access in Italy
- ii) the retail market for fixed broadband internet access in Spain
- iii) the retail market for telephony services at a fixed location in Italy
- iv) the retail market for telephony services at a fixed location in Spain

Above resulted in the following vertical market relationship between the parties:

- i) wholesale call termination upon Tfone's fixed network, respectively, in Italy and Spain
- ii) wholesale call termination upon Afone's mobile network in Italy and, respectively, in Spain
- iii) retail mobile telephony market, respectively, in Italy and Spain

The data used for the evaluation of the financial and operational impact of the transaction has been extracted from the published financial statements of the group over the period of time, available from the group website.

a) Profitability-Country wise

To evaluate the outcome of the transactions in both countries Spain and Italy in terms of profitability, the net profit of both the countries in the pre and post transactions era was compared by gathering statistics from the published financial statement which are reproduced in Table 12.

Table 12: Profitability of Afone for Business in Italy and Spain in Pre and Post Acquisitions Period

Profit & Loss Account	£ m									
	2006		2007		2008		2009		2010	
	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain	Italy	Spain
Voice revenue(1)	3,472	3,093	3,329	3,435	3,169	3,792	3,556	3,991	3,658	3,859
Messaging revenue	600	417	563	380	689	425	833	430	894	400
Data revenue	98	105	189	247	274	341	404	419	516	488
Fixed line revenue(1)	–	–	–	–	137	86	417	265	540	318
Other service revenue	–	–	2	–	4	2	137	251	172	233
Service revenue	4,170	3,615	4,083	4,062	4,273	4,646	5,347	5,356	5,780	5,298
Acquisition revenue	–	–	124	307	129	268	–	–	–	–
Retention revenue	–	–	36	124	27	143	–	–	–	–
Other revenue	193	380	2	7	6	6	200	456	247	415
Revenue	4,363	3,995	4,245	4,500	4,435	5,063	5,547	5,812	6,027	5,713
Interconnect costs	(681)	(634)	(628)	(675)	(725)	(719)	(1,247)	(1,242)	(1,359)	(1,161)
Other direct costs	(241)	(329)	(242)	(352)	(238)	(418)	(1,044)	(1,988)	(1,150)	(2,035)
Acquisition costs	(78)	(274)	(249)	(642)	(325)	(620)	–	–	–	–
Retention costs	(93)	(249)	(107)	(398)	(106)	(536)	–	–	–	–
Operating expenses	(807)	(151)	(870)	(866)	(883)	(964)	(832)	(685)	(675)	(561)
EBITDA	2,270	(605)	2,149	1,567	2,158	1,806	2,424	1,897	2,843	1,956
Acquired intangibles amortization	–	1,373	–	–	(31)	(14)	(55)	(8)	(10)	(2)
Purchased license amortization	(74)	(69)	(75)	(37)	(80)	(6)	(95)	(7)	(104)	(7)
Depreciation & other amortization	(524)	(336)	(499)	(430)	(474)	(504)	(540)	(559)	(622)	(637)
Share of result in associates(2)	–	–	–	–	–	–	–	–	–	–
Adjusted operating profit EBITDA margin	1,672	968	1,575	1,100	1,573	1,282	1,734	1,323	2,107	1,310

(Source: Annual Report of Afone for the years 2007, 2008, 2009, 2010)

b) Profitability-Aggregate

Analysis of the financial results was also carried out on aggregate basis, combining results of both the countries together, by comparing financials for the pre and post transactions period, as mentioned in Table 13. This was based on the reason that as per documents examined, mentioned in the later part of the report, the value of the transaction was negotiated in aggregate.

Table 13: Profitability on aggregate basis of Afone Business in Italy and Spain in Pre and Post Acquisitions Period

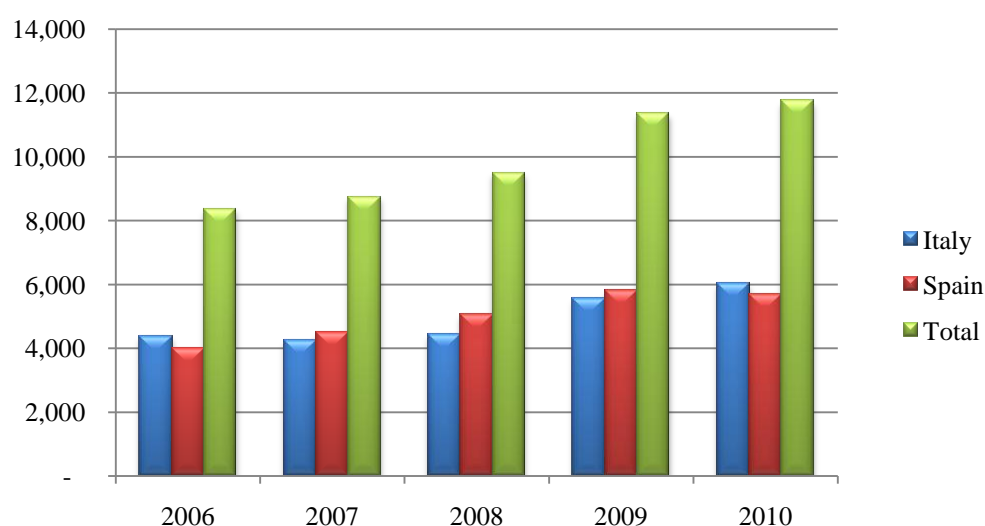
£m

PROFIT & LOSS ACCOUNT	2006	2007	2008	2009	2010
Voice revenue	6,565	6,764	6,961	7,547	7,517
Messaging revenue	1,017	943	1,114	1,263	1,294
Data revenue	203	436	615	823	1,004
Fixed line revenue	-	-	223	682	858
Other service revenue	-	-	6	388	405
Service revenue	7,785	8,145	8,919	10,703	11,078
Acquisition revenue	-	431	397	-	-
Retention revenue	-	160	170	-	-
Other revenue	573	9	12	656	662
Revenue	8,358	8,745	9,498	11,359	11,740
Interconnect costs	(1,315)	(1,303)	(1,444)	(2,489)	(2,520)
Other direct costs	(570)	(594)	(656)	(3,032)	(3,185)
Acquisition costs	(352)	(891)	(945)	-	-
Retention costs	(342)	(505)	(642)	-	-
Operating expenses	(958)	(1,736)	(1,847)	(1,517)	(1,236)
EBITDA	1,665	3,716	3,964	4,321	4,799
Acquired intangibles amortization	1,373	-	(45)	(63)	(12)
Purchased license amortization	(143)	(112)	(86)	(102)	(111)
Depreciation and other amortization	(860)	(929)	(978)	(1,099)	(1,259)
Share of result in associates(2)	-	-	-	-	-
Adjusted operating profit EBITDA margin	2,640	2,675	2,855	3,057	3,417

(Source: Annual Report of Afone for the years 2007, 2008, 2009, 2010)

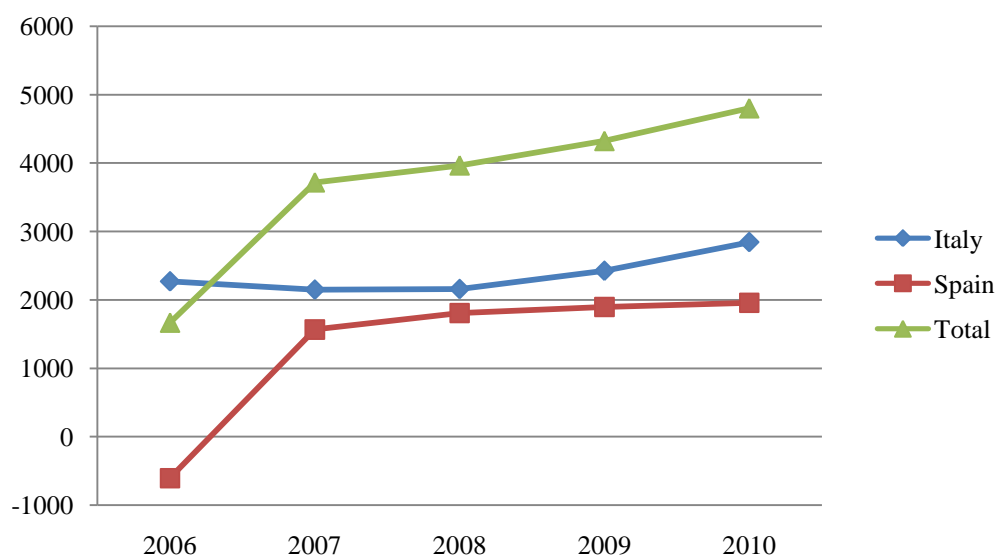
The outcome has been expressed graphically in terms of “revenue” of both the countries individually as well as on combined basis, before and after the transaction in the Figure 15.

Figure 15: Revenue Trend in Italy & Spain Business in Pre and Post Acquisition Period



Like analysis on revenue basis, as given in Figure 15, the outcome was also measured in terms of EBITDA (earning before income tax and depreciation allowance) used for assessing cash flows generated from operations. The trend in the figures before and after the transactions is given in Figure 16.

Figure 16: EBITDA Trend of Italy & Spain Business in Pre and Post Acquisitions Period



Comments on the above results on consolidated basis, by combining Spain and Italy businesses are as follows:

- i) Accumulated revenue in 2007 increased by 4.62% over previous year, where in 2008 the revenue increase was 8.6% compared to 20% in 2009, but in 2010 growth was reduced to 3.5%. Excluding the fixed line revenue the percentage increase over last year in 2007 was 4.62%, 6.1% in 2008, 15.1% in 2009, and 1.89% in 2010.
- ii) On service basis, the major increase was due to Messaging Service which was 18.13% in 2008, and 13.38% in 2009. Data revenue also recorded significant rise, above thirty percent in the all the years after 2007. So, the contribution of both sources was quite insignificant compared to voice revenue.
- iii) Earnings before non routine adjustments in the post acquisition period, was apparently not convincing to justify the acquisition transaction.

Comment on Spain business results can be summed up as follows:

- i) Revenue over the period recorded an increase over 10%, but the revenue growth rate declined visibly after netting off the other non operation relating revenue receipts. The increase in voice revenue the after acquisition period stamped a declining trend

from 11% in 2007 to 10% in 2008, and 5.25% in 2009. Similarly, the message and the data revenue growth rate also declined in the period.

- ii) Net earnings, excluding the effect of the non operational adjustment was on decline due to low growth rate, in the post period, which is crucial while undertaking performance assessment.

Comments on results of Italy's financials are given below:

- i) Revenue recorded an increased growth rate in the post acquisition period, it was 25% in 2009, and later on growth declined to 8% in the year 2010. The service revenue also showed the same trend but at a less rate reflecting better contribution of the new sources of revenue.
- ii) All the three services revenues covering Voice, Message and Data growth rates were positive in the post period but after 2009 the pace slowed down, which was different from Spain where the growth rate in all these services declined after the acquisition.
- iii) EBIDT, in aggregate, increased after acquisition period but the pace of the growth after excluding the effect of other adjustments was not so impressive.

c) **Key Performance Indicators - Closing Customers**

Let alone the financial figures, evaluation of the acquisitions can also be effectively made by comparing the number of customers in the pre and post transactions period. Such numbers for both the countries individually and in aggregate have been given in Table 14.

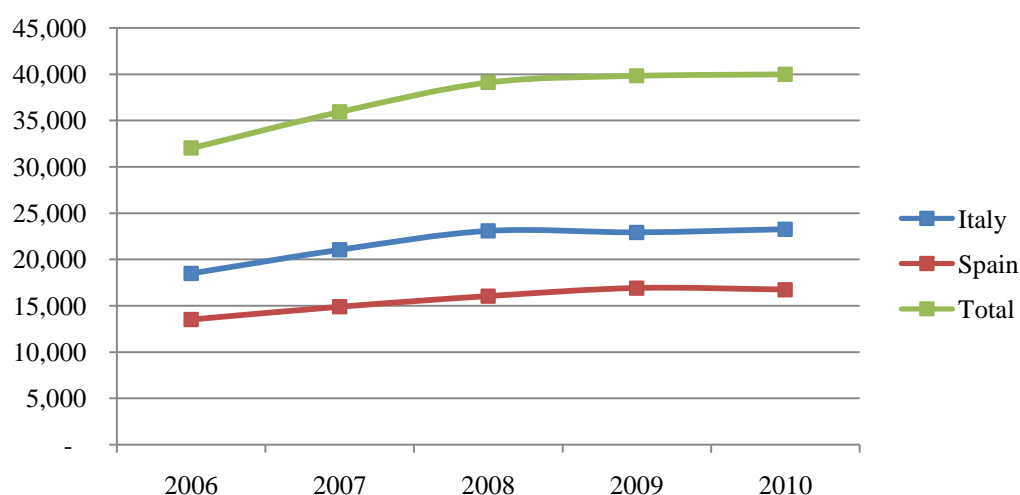
Table 14: Closing Customers Data of Afone in Italy and Spain Business in Pre and Post Acquisitions Period

	2006	2007	2008	2009	(000) 2010
Italy	18,490	21,034	23,068	22,914	23,248
Spain	13,521	14,893	16,039	16,910	16,745
Total	32,011	35,927	39,107	39,824	39,993

(Source: Annual Report of Afone for the years 2007, 2008, 2009, 2010)

The graphical presentation of the figures in Table 14 by way of graph, to bring clarity to the trend, has been given in Figure 17.

Figure 17: Closing Customers Trend of Afone in Italy and Spain Business in Pre and Post Acquisitions Period



The above trend can be described as:

- i) On accumulated basis, the number of customers increased in 2007 by 12%, where in 2008 the growth rate declined to 8%. Thereafter, the growth rate further declined and it was 2% in 2009 and 0.4% in 2010.
- ii) On country basis in case of Italy, in 2008 the growth was 10% compared to last year of 14%, same pattern prevailed in case of Spain. The Italian target firm had 2.6 million customers, which was equivalent to the increase in the number of customers in the post acquisition year 2008. Spain, on the other hand, had a meager customer base of 550,000 customers but its growth in 2007 and 2008, was better compared to Italy.

d) Key Performance Indicators - Closing 3G Devices

Like change in number of customers over a period, the movement in number of 3G Devices also reflects the volume of business gained or lost. Such numbers for both the countries and in totality from 2006 to 2009 are given in Table 15.

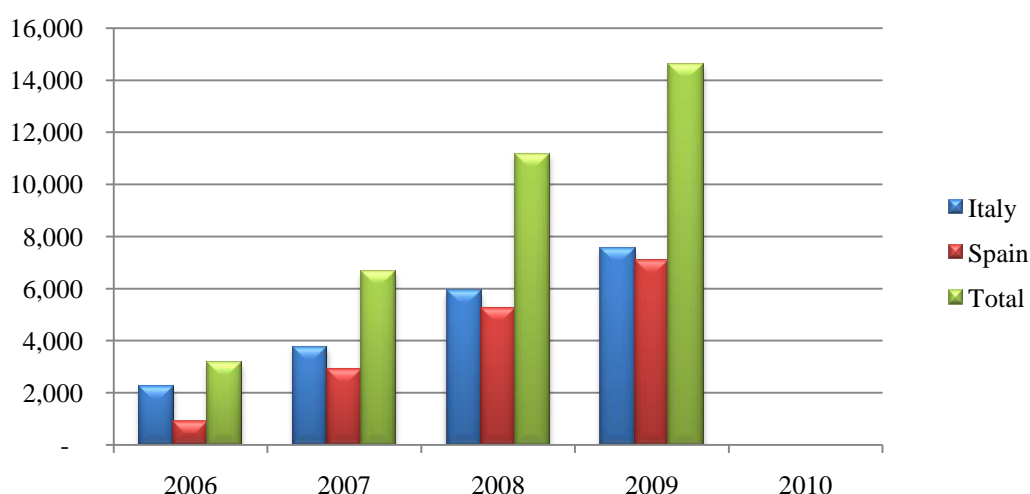
Table 15: Closing 3G Devices Data of Afone in Italy and Spain Business in Pre and Post Acquisitions Period

	2006	2007	2008	2009	(000) 2010
Italy	2,250	3,762	5,905	7,546	-
Spain	902	2,890	5,264	7,068	-
Total	3,152	6,652	11,169	14,614	-

(Source: Annual Report of Afone for the years 2007, 2008, 2009)

Graphical presentation of the data given in Table 15 is given in Figure 18 to make the trend more understandable.

Figure 18: Closing 3G Devices Trend of Afone in Italy and Spain Business in Pre and Post Acquisitions Period



Growth of 3G in both the countries increased, which apparently, was on account of growth trend from the year 2007 onward.

e) **Key Performance Indicators - Voice Usage**

Voice usage quantitative information over a period also reflects health of the business. In Table 16 such basis have been used, along with other criteria used in other tables, to evaluate the impact of the both the trans-actions individually and collectively.

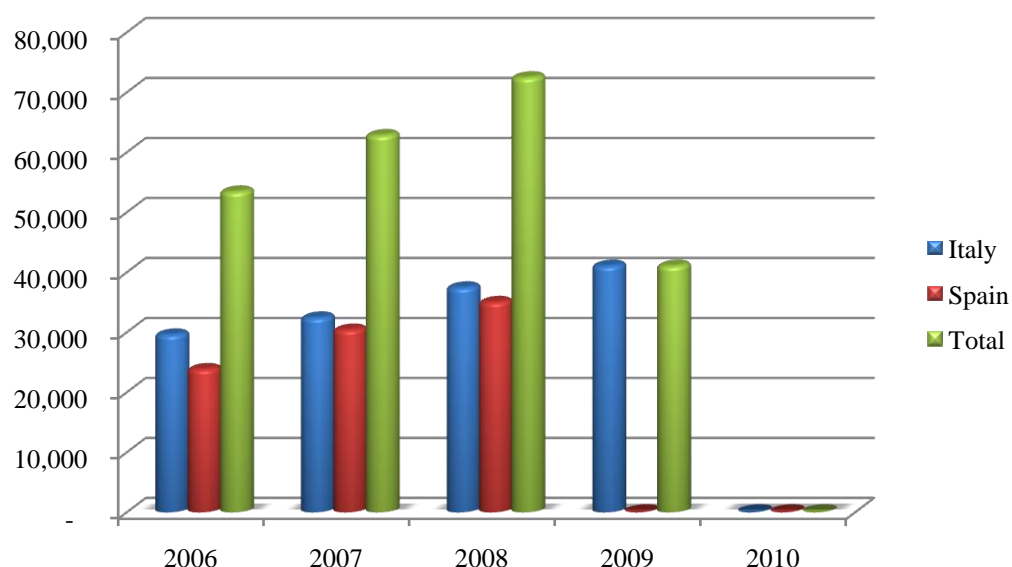
Table 16: Voice Usage Data of Afone in Italy and Spain Business in Pre and Post Acquisitions Period

	2006	2007	2008	2009	(£m) 2010
Italy	29,604	32,432	37,447	41,063	-
Spain	23,835	30,414	35,031	-	-
Total	53,439	62,846	72,478	41,063	-

(Source: Annual Report of Afone for the years 2007, 2008, 2009,)

The graphical presentation of the data reproduced in Table 16, as extracted from the annual report of Afone, is given in Figure 19 which clearly shows the trend over the desired period.

Figure 19: Voice Usage Trend of Afone in Italy and Spain Business in Pre and Post Acquisitions Period

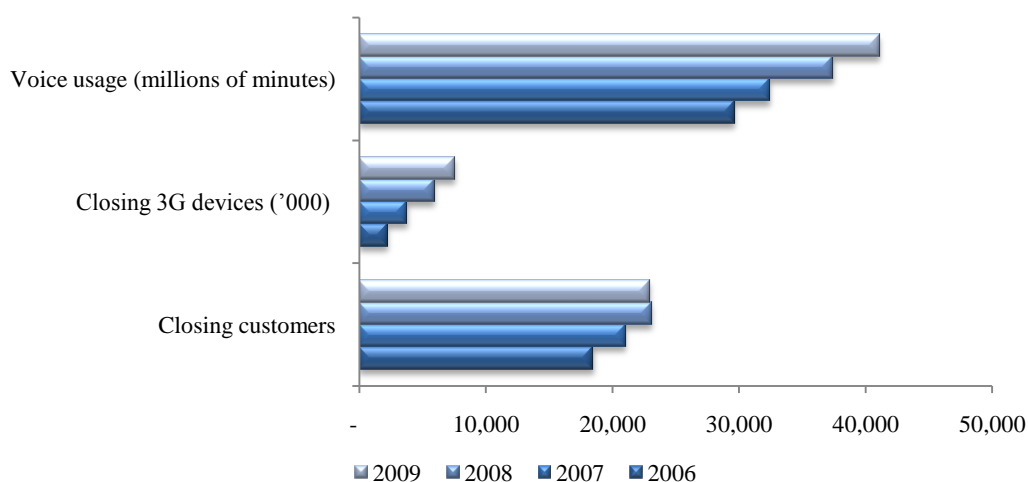


Voice usage, reflecting volume of business in true sense, increased in the years prior to the acquisition. This continued in case of Italy, it reported growth of 10% in 2007 which accelerated to 15% in 2008 but it slowed down to 10% in the subsequent year, the trend could not be assessed in case of Spain due to non availability of data.

f) Key Performance indicators – Italy

Though all the performance indicators have been discussed for both the countries and in aggregate separately for each indicator, but to assess such indicators trend collective on each country basis, the relevant data has been used to show the movement in graphical manner. Figure 20 shows the trend for all such indicators for Italy in pre and post transaction period.

Figure 20: Italy Performance Indicator in Pre and Post Acquisition Period

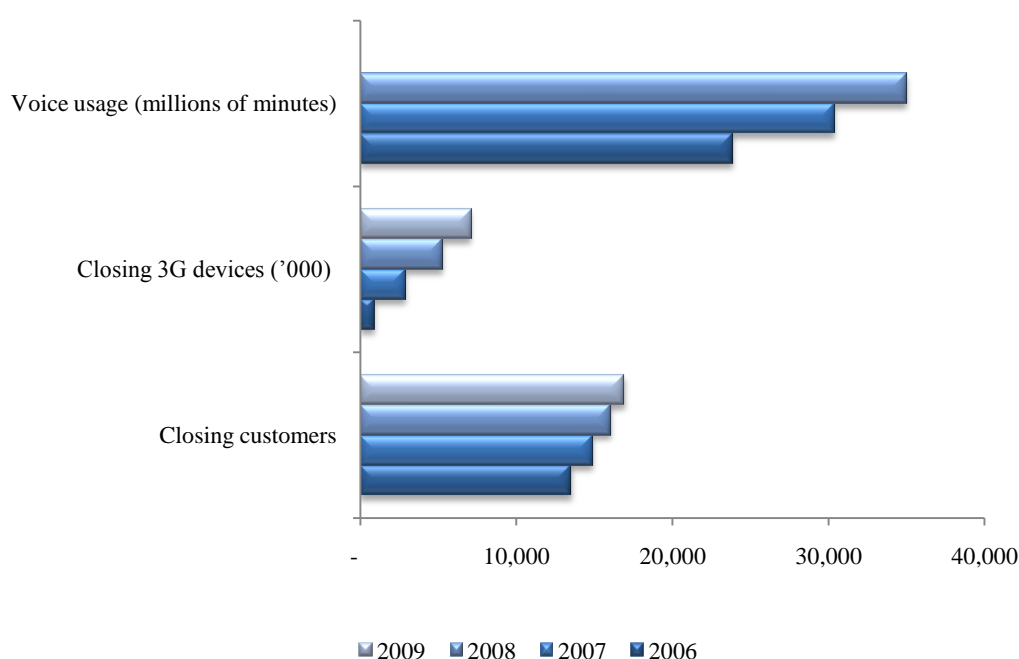


Country based KPI showed that the number of closing customers increased over the period from 2006 to 2008 and in 2009 it remained stagnant. The Voice Usage and 3G devices numbers performed better and both showed increasing trend in pre as well as in post acquisition period.

g) Key Performance indicators – Spain

Similar to the basis used for the preparation of graphical trend for Italy in Figure 20, the data pertaining to Spain has been used to evaluate the trend in graphical form in Figure 21.

Figure 21: Spain Performance Indicator in Pre and Post Acquisition Period



Voice usage showed a remarkable growth over the period, though this trend started in the pre acquisition period and the continued thereafter, and the impact of acquisition, in this process, could not be assessed. The results were not positive when this trend is correlated with the closing number of customers where the growth rate was not as promising. Apparently, the market as a whole showed signs of growth, leaving positive impact in the post acquisition period as well.

h) Sum up:

- i) As per notes to the annual accounts for the year ended 2008, assets of Tfone in both the companies were acquired at market value £457 million including £256 million ponds as goodwill, and segregated values for both the companies including goodwill, apparently, was not determined.

- ii) Interestingly, Afone Spain wrote off goodwill investment in the year 2009 to the extent of £340 million, pertaining to Italy and Spain businesses. Such adjustments, as per notes to the accounts, were made on annual basis by using discounted future cash flow valuation method. This raised doubt as to the validity of basis used for determining consideration at the time of acquisition.
- iii) On consolidated, as well as on country basis, the revenue figures of services, after acquisition, did not maintain accelerated pace of growth that existed in the pre acquisition period. The increase in total revenue after acquisition was mainly due to addition of new line of businesses, contrary to the initial assessment that addition of fixed line business would provide boost to the prevailing business, which proved incorrect.
- iv) The financial for the post acquisition period of Italy declared loss, which was against the basis followed for the valuation of business at the time of acquisition. While going through the text available in the Annual Report, it appeared that assessment of expected changes in the rules and regulations of the respective countries, particularly in case of Italy, was not rightly made.
- v) Immediate benefit of the transaction, apprehended, was to retain customers of both acquiring and target entities by offering each other's services. Thus, increasing number of customers for both businesses. But pre and post period performance indicators do not visibly substantiate this desired benefit.

6.4.6 Review of the transaction documents

In this case study, the management was gracious enough to provide an opportunity to review some of the documents pertaining to the transaction. This helped not only in understanding the issues involved, but also in substantiating the observations made during the interviews.

The list of documents made available by the management is stated below:

	Document	Dated
i)	Non binding offer	July 23 rd , 2007
ii)	Financial Advisor Appointment Letter	July 26 th , 2007
iii)	Bank Engagement Letter	September 4 th , 2007
iv)	Due diligence Report	August 21 st , 2007
v)	Binding Offer	September 10 th , 2007
vi)	Preliminary Valuation - Italy	July 12 th , 2007
vii)	Preliminary Valuation – Spain	August 20 th , 2007
viii)	Agreement	October 6 th , 2007

Examination of the above documents revealed the following:

- i) The non binding offer was made on combined basis for both the companies in Italy and Spain between € 400 million to € 440 million, not separately for each of the companies. The offer was made on the basis of Information Memorandum, prepared by the consultants engaged for the purpose, but the offered amount was, surprisingly, determined by the firm itself.
- ii) A bank was engaged as an advisor to the acquisition of both the firms, the scope of their services mainly covered the following:
 - a. Preparation of initial document for the board/committee approval
 - b. Development of structure of the firm after acquisition
 - c. Advice on the strategy to be adopted during the acquisition process
 - d. Assistance during negotiation
 - e. Organizing due diligence meetings
 - f. Assist in seeking regulatory approvals required for the acquisition
 - g. Advice on external matters like stock exchange
 - h. Advice and assist in presenting the case to the shareholders
- iii) KPMG was appointed as financial advisors; their scope of work also included preparation of financial projections but did not cover the valuation of the transactions. Also they were mandated to undertake due diligence, covering not only on financial but other matters related to the transactions.
- iv) The due diligence report covered: Information Technology; Marketing; Human Resource; Regulations; Legal; Customer Relationship Management; Finance; Tax; and Integration Plan. The report highlighted issues like taxation adjustment, analysis of churn and SAC's etc. to be considered while undertaking valuation. But from the documents available it could not be substantiated as to whether those were considered or not.
- v) The binding offer for both the companies was made for € 725 million against non binding offer of € 400 to € 440 million. The reasons for increase in the value were not evident from the documents provided.
- vi) Preliminary valuation reports of both Spain and Italy were available on record, valuing Italy business between € 200 million to € 240 million subject to due diligence of the following:
 - a. Latest reported performance
 - b. Actual customers figure and their quality
 - c. Quality and quantity of the deployed operational assets

- vii) Value of Spain business, as per preliminary valuation, was determined at € 510 million on APV basis and € 435 million to € 635 million on DCF basis. But the value suggested for the transaction was for € 380 million.

So, the price agreed was € 725 million against aggregate preliminary valuation of both the companies between € 580 million to € 620 million. The increased value was not supported by any subsequent valuation.

6.4.7 Findings

The case study is, primarily, based upon interviews of Senior Managers of Merger and Acquisition and Legal Departments of Afone, the persons actively involved in the transactions and based at head office of the group in UK. The interview details have been discussed as follows with reference to the components of the research subject.

a) Selection of Target Firm

In the past, the objective of undertaking M&A transactions in the Afone group varied from one firm to another or from one country to another. In one case, consolidation was the reason, while in others was expansion in footprint. Before 2006, Afone strategy was expansion into emerging markets so more M&A transactions took place in countries like India or Africa.

In 2007 there was a change in the strategic guideline, switching to the policy of “Total Telecoms” and CEO supported the Tfone transactions aligned with the strategic guidelines. This strategy required the optimization of Afone portfolio, so the objective, as per CEO, was not to manage their minorities because they didn’t have the right to do that. This caused the disposal of some of the minority investments in 3 Mobile and in SFR in Germany. Similarly, they stepped back in France. Total Telecom policy, which meant mobile and fixed line called “bundling” - providing bundling services to the fixed line customers - let them avail every opportunity either by being proactive by chasing target companies, which was a big work, or waited for a seller to come and pitch their assets for sale.

Same was the case of Tfone, it was a big telecom group based in Sweden, they as a part of strategy wanted to move toward Eastern Europe, which finally, had a big presence in Russia. They also wanted to dispose off their businesses in Southern Europe, and Tfone Italy was a part of the disposal list. Its business was also not performing well because of commission system, which was either fall or random, was not great. In 2007 before it was acquired by Afone they were about to move towards IP technology. They were, initially, in a typical carrier selection and re-selection business due to which their around 2.7-2.8

million customers were not happy with their services. They offered cheaper rates as they were fresh competitor in the market.

There was a European Union directive, few years back, requiring two types of services to be provided to improve the market competition. One way was to provide MLL (Manual Local Loop) services to other companies, allowing them to put their hardware in the central office for the purpose to use the incumbent provider's backbone for transmitting your customers' traffic, by not relying on the incumbent provider's hardware. The incumbent, in this case, charged fee on the monthly basis for each customer, which at that time was 9 Euros per month per customer. The other way was to service the B stream, which was something that united European Union was sold for. In this case, neither one had to own or lease from some other firm. But by paying a rate, which was higher than 9 Euros, at the time of acquisition it was 25 Euro per customer per month, the incumbent provided services to customers, by acting as reseller to the incumbent. The service provider, therefore, acted as a marketing player like a pure marketing machine. The viability of either of the methods was, thus, based on volume of customers. Where the market share was high it was viable to serve customers with your own assets instead of acting as an incumbent firm representatives, and when the number of customers was not that big then acting as a representative, using incumbent's assets was recommendable. For example in Italy, Afone did not serve their customers with their own assets because in some rural areas the scale of customers was low, thus, the option of using their assets was not economically viable.

Another issue that required clarity was wire used for providing services, at that time copper was used, which was not considered as good enough for high bandwidth. So, Afone was looking at other means to go beyond copper, which was fiber. In the European market the EU was basically committed that within 5 to 7 years the central offices would be converted to fiber, this had already happened in Netherlands, and other countries were to follow soon. Similarly, this had to be followed in Spain and Italy as well.

The impact of conversion from copper to optic fiber and related costs were not considered at the time of selection of the entity and for the purpose of determining the value of the transaction. Because, at that time the Board did not have clear understanding of the needs for the coming 5 years time and discussion around fiber took place afterwards. Obviously in technology, it was not possible to foresee what would happen in the coming 2 or 3 years or 4-5 years. *"But, In fact, there was a competitor in the market, providing fast web services through fiber to the customers, just, in the area around Milan and not nationwide. Similarly, in Spain there was a competitor providing data services by using*

different technology on physical layer, but their bandwidth connectivity was not like as at the time of this transaction”, says Senior Manager Merger and Acquisition.

The primary reason, thus, for entering into M&A transaction was to ensure the compliance of the strategic guideline of “Total Com”, requiring more fixed assets, towards this the firm always tried to identify and explore market opportunities. In case of this transaction, the European region’s CEO contacted the head of the Merger and Acquisition Department at the head office to understand what could be done in Europe around Total Com policy.

“Merger and Acquisition transactions are driven by different things: to get hold in the market; acquiring the support by the strategy like data communications; pure diversification; consolidation; and just to prevent other people from acquiring an asset, which is key to the business, so you would otherwise buy unless you think there was a risk to your revenue by not buying it. The objective of providing all such information is to align people to make the right investment decisions, without giving a kind of toilet paper”, says Senior Manager Merger and Acquisition.

Normally, the Merger and Acquisition Department looked around the opportunities, either the target was identified by the department itself, by looking for and contacting the target region for the suitable cases, or it used to be discussed with the banks because in most of the cases they were the right source to look for such transactions. And once the opportunity was identified, the sellers’ or their representatives were approached to understand the seller’s perspective as to the transaction and what sort of process that shall be followed to move forward. The process was generally managed by advisor which could be a bank/ investment bank such as Goldman Sachs etc.

At the time of selection of the firms consideration was given to the matters relating to the shareholding to be acquired as well as the mode for the settlement of transactions but a formal study to define its relationship with selection process and transactions’ objective was as such not initiated.

When a firm was identified for acquisition, approval from relevant committee was obtained, depending on kind/type of transaction. While, seeking approval one had to ensure that persons involved in the identification were involved in other such transactions as well and had identified issues, which were pertinent in making such decision. So, it was quite an empirical process. The approval level was based on the value of the transaction: from 150 million Euros to 100 million, group CEO and group CFO; from 50 and 100 million Euros, group CEO; from 10 to 50 million in each of the three regions

from group CFO and regional CEO; and for less than 10 million, regional CFO and regional CEO. The approval process was in compliance with the organizational structure of Afone, segregated into two regions, Europe and emerging economies. Other than regions' structure, there was a group CEO, who looked after the sector/group and then there was a group CFO, who looked after the finance function of the group, then there were some functional departments, staffed with persons, having statistical knowhow and so on. But the markets were organized on regional basis. All such authorities were defined in delegations of authority document, in the shape of six long size group policy procedures manual, listing number of different types of eventual transactions having strong tight handle on the things to ensure consistency across the piece.

Approvals were backed by the sign off, which along with the consent or denial also put together all the related issues observed during the approval process. It was, therefore, ultimate decision of the committee, whether to go for the transaction or not, the cases were presented to it regardless of the fact whether the transaction was likely to takes place or not.

The next phase, usually followed, was to assess the opportunity and the risk associated with it, this always formed the basis of starting a conversation with the target entity. The other party used to send some teasing material, which was like selling document and always presented the case as fantastic opportunity. It contained information like: what the business was; set of numbers that had been achieved in the past to show their past performance; and what they expected to achieve in future. After the review of the documents, one had to go deeper through discussion with them. The exchange of documents and discussion were carried out after signing a Non Disclosure Agreement (NDA) with the target entity, confirming the confidentiality of the information so passed on. NDA was signed at initial stage, not necessarily because of commercially sensitive information was being provided, but also due to the reason that any non-focused discussion around the transaction and its dynamics could be damaging to the process itself.

“To start things rolling, often a teaser is a precursor for full information memorandum but that is not unusual to see such sort of a teaser just being a first step alone to the full engagement. The NDA's purpose is not just to protect the confidentiality of the information in the teaser, because as we have said it is highly sensitive, but actually it protects the information around the process itself. Often what they are selling is not out in the market place, and they don't want to affect either the competitive tension around the process or to undermine the process itself by having information regarding the status of

negotiations, the number of bidders, the identity of those bidders, the numbers being discussed and all of that going out”, says Senior Manager Legal.

Sometimes, they went to credit rating agencies, if the deal was large enough, for their professional feedback. But beforehand, always, they had to make clear that they were on the hook for any breach of NDA by any of those people. There was also a possibility that one had to carve out any information: independently developed; one had beforehand; was required to be disclosed on the basis of a court order, any kind of regulatory or legal obligation or anything like that but other than that it was fairly tight.

b) Valuation of Target Firm

After signing NDA they were authorized to get desired information from the seller to complete the first phase of this process - expressing non bidding offer to the seller. This phase process normally took 3 weeks to work around the information, so far gathered. While developing a plan, consideration was also given to the business risks that might be associated with the synergies that one wanted to achieve, and finally how much price for the assets as well as the synergies that could be offered.

“Well we are basically engaged for 2-3 months from start to finish and for this we need to identify different phases. At the beginning we are teased with the information and then we say, I’m happy to engage with you, we sign a NDA and we get other information. After 3 weeks we have to submit a non-binding offer and that’s basically phase 1”, says Senior Manager Merger and Acquisition. If the seller was happy to accept the non-binding offer then the buyer moved to the next stage, the seller would open the firm information more in detail.

Non-binding offer never meant to set up a price to close the transaction, the seller used this offer to assess whether the buyer was on the ballpark where they wanted them to be. If that was not so, the seller would be willing to proceed further if nonbinding was revised. Typically, such offers were made after getting feedback from tax, legal and other special advisors depending upon who could give information on the regulatory as well as political environment, particularly when they were talking about cross-border transaction.

In such cases, assessment of foreign rules and their likely impact on the transaction also needed to be evaluated. In Italy and Spain, Afone was present and well established, therefore understanding market and there regulations were not the issues needed to be addressed, in this case.

After non-binding offer the financial, legal and commercial due diligence, based on relatively standardized due diligence request list, took place “....*requiring a significant amount of information to allow us to really look at the company to understand all the nuts and bolts within it and to identify any liabilities etc., any issues we need to address in the purchase and other documentation to assure: what we acquire is actually what we think we are acquiring, and we can preserve value in the asset once we have acquired it so...*”, says Senior Manager Merger and Acquisition.

Though, there was a certain amount of tailoring in the due diligence request list to reflect the asset they were acquiring, and to make sure that the feedback from the professional advisors was accommodated. Apart from other assets, securing the right to use Tfone name was critical, in this case, because the credibility connected to the Afone brand wasn't really as strong as that of Tfone, the switch over, straight away, without some kind of transitional arrangement could have been value destructive.

Due diligence always came up with more information leading to more refined business model. It contained enormously detailed spread sheet bringing in a number of information fields, which allowed them to draw up a basic valuation criteria and a road map for the business, and massed wealth of information relating to financial (which included taxes as well), operational and legal issues. Since, the legal matters were always more pertinent in such transactions, it was generally considered to engage a law firm wherever possible. Involvement of professionals varied from case to case or depending upon the nature of the transaction as well as upon the level of the information received, sometimes the professional advisors were required to do a quick scan of the information available in the teaser to form an understanding. But generally, and in this case as well, it was carried out by the group itself by utilizing their in-house expertise.

While determining the worth of the acquisitions, first of all they used to estimate the firm's financials over a planning period, up to the point where they thought it would stabilize and then determined its worth beyond that value. This was done by basically building a forecasted profit & loss account and cash flow statement, however, they never considered balance sheet and the capital addition for this purpose.

The methodology they adopted for valuation, which they referred as adjusted methodology, basically had two parts. The discounted cash flow reflected the value of the assets of the firm, which was represented by the value of the equity and the value of the debt. The value of the asset, therefore, reflected the value of the firm for stakeholders as well as debt holders. Based on this logic when they acquired Tfone they were interested

in understanding the value of the business from an equity holder perspective, which they arrived at by deducting the borrowings from the value of the firm so determined, the amount they had to pay for the firm. This method of calculation was called un-leverage cash flow method, constructed on the basis of EBDA before interest payable on borrowings, to arrive at a figure excluding the borrowings effect, called operating free cash flow. The worth of the firm was determined by deducting the tax payable as well as movement of working capital.

The un-leveraged method was followed because of the reason that fundamentally transactions were financed by the group, because it could get much stronger rate of interest than an individual standalone firm due to their small size, net worth, and revenues. Another factor was that people were always willing to fund Afone because of the credit rating, and they would not like to see subordinated debt in the group. The group always tried to put debt to lower levels because the top management always wanted to reduce the financial costs by paying off the expensive debts. Further, financing at the group level also gave them significant tax deductibility.

The unleveraged free cash flow was prepared for ten years and discounted at a rate, which was equivalent to weighted average cost of capital, minimum return required by any stakeholders, either shareholders or debt holders. So, what they used to do was to blend the cost of equity leveraged and the cost of debt after tax, depending upon the capital structure of the firm after the acquisition.

The cost of equity, according to them, was leveraged cost of equity. And what they did was applying the CAP (Capital Asset Pricing) to the final cost of equity. To arrive at a minimum return, required by any shareholder, they looked at the rate of return of the ten year bond. Then they added, on top of that, a premium to cover the risk associated to an equity investment, which was basically equal to the multiplication of a factor called Beta times, an expected market risk base. *“Our policy states that the expected market premium should be 5.5, modern analysts say that now it should be around 4.5. This, in fact, represents historically how an average share has performed against bonds in terms of return based on global market trend. While talking about specific investment, fine tuning and refinement are undertaken through beta. Beta, in fact, tells how to co-relate the returns of the business with the market. It any way tells you that if the market goes up by 100, your company would go up by 80 or 120 or 100. In the mobile world, 1.1 Beta is used for fixed lines where they assumed less 0.9, which is without any leverage and called antacid Beta. It has to be structured according to target capital structure to translate it to*

leveraged Beta. ”, says Senior Manager Merger and Acquisition. So, the return required by the shareholders would be higher, the greater was the leverage of the business.

They used to consider DCF as well as other valuation methodologies such as multiples and EBDA of comparables. The multiples were applied to the financials of the firm under consideration on perspective basis. The comparables were decided by comparing the profile of the selected firm with the other companies. Reckoning to the Quadrant Formula, the price was determined basically by the dividend of the firm in the next year divided by the cost of capital minus the growth. While looking for comparison they always looked for closest possible firm, in this case they looked at Telecom Italia, although there were other mobile businesses like in France or in Egypt, which could have been considered.

“So typically, what we do is summarizing the valuation results in a procedure called football field, which gives you an idea of where all the valuation stands, either DCF or multiple, so that you can take a view from different perspectives”, says Senior Manager Merger and Acquisition.

In case of this transaction they looked at it with reference to value per customer or value per EB revenue, resulting in much sophisticated working. By looking at the value per customer, it was concluded that the customer base was made of so much voice customers and so much broadband customers. The analysis, further, revealed that average revenue generated from broadband customer was more than voice customers, because they could not mix around the services. Such differentiation, hence, added more detail to the valuation process to develop a proper DCF. Different scenarios for the analysis were assumed like the business as was being run without such transaction to happen, as compared with the one that could take place after such transaction by incorporating few assumption based on synergies, on which one could work on. However, finally they based their strategy on assumption that how would the firm look like after it was taken over, depending upon their plan of restructuring. Such plan was mainly aimed at cost reductions, net of the costs that would be added as a part of integration process. Resultantly, how the benefit could be derived from the transaction.

“Typically what we did in Afone was giving more relevance to anything that we can control, so e.g. if we merge two businesses, how can we control the amount of employees of the combination of two businesses, meaning that they can decide whether there are some redundant employees. If we say that we have 300 people, and we think that we can run the business with 250, then 50 might go. So, the decision of 50 people is on us. This is

a benefit we can use as it is related to us and is in our control, so we give it a value. But those related to market are less in our control and are, hence, of lesser relevance”, says Senior Manager Merger and Acquisition.

While doing synergy analysis, they considered opportunities on the cost side, that how cost could be reduced, as well as the revenue side by identifying opportunities that could be gained by pooling the resources or combining both businesses. On top of that, they looked into the perspective that how the market would change after the transaction, particularly with reference to Telecommunication industry, which was basically a very much regulated. The scarce resource in Telecom industry was the spectrum, which was regulated, so what the operators did was to get a license to use some frequencies, they deployed a network and provided voice and data connectivity services based on the spectrum. But the number of operators, within the market, was limited because of scarce resource. So, typically any market could be either classified as a monopoly, perfect competition or somewhere in the middle like oligopoly, hence, having different synergy analysis perspective.

While developing model for the valuation the assumptions pertaining to operation, customers pick, cost etc. were provided by the local firm, which were fed into the selected model built on mechanic around the discounting. *“What we do is in different phases - in the first phase we prepare the model and then in the second phase we handover the model and ask them to ensure that the model is correct and they do their evaluation but It doesn’t happen on every Merger and Acquisition transaction”, says Senior Manager Legal.*

In case of Italy, while conducting valuation they paid for the synergies over and above what their stand alone business case would have fetched. *“What I mean by this is that lets assume that you start from the fair value of the assets on the standalone basis, then the value further increases due to synergy of Afone. Further, you add the effect of the value that can be achieved by building on your own organically. So, whenever you make such a decision, acquisition, you need to understand how much it would cost you to organically build this business, you shouldn’t recognize basically any value to the seller that you could do it on your own. In contrast to Spain, Afone Italy basically submitted a business case to fix this organically”, says Senior Manager Merger and Acquisition.*

Basically there were many tools available for valuation but they looked at other matrix as well that how the market would respond. At times, while going for a transaction they ensured that the acquisition would yield at least 200 basic points over the cost of capital

for a given number of years, suitable to the transaction or in other words depending upon the opportunity, which was like 10 years. If short period was considered, they would bank upon 100 basic points above the cost of the capital. On top of that, there was another criterion of Return on Investment, which they should be expecting while going for such an investment, and in any case it should be not less than the cost of the capital to be invested for the purpose. *“So recovering simply the cost of the capital/investment over the period without additional returns should be, at least, what they must be expecting to justify the investment opportunity”*, Senior Manager Merger and Acquisition. The strategy of defining valuation criteria was started in the year 2006, before that, specifically, there were no such guidelines, rather basis adopted were different from transaction to transaction. It had limited their position of availing opportunities but it was difficult in most circumstances to say that opportunities outside of it would have been good opportunities.

“The reasons for overpaying an acquisition could be the one like: not following the rules which were in vogue; the market conditions as foreseen at the time of valuation were not as they actually responded; the prospective cash flows in the market was lower than their business case like; and it was assumed at that time an average customer would be paying \$7 per month and then it was realized in two years time that realizable figure was \$3, so the valuation fundamentals were completely different”, says Senior Manager Merger and Acquisition.

The determined value did not bind the committee/board approval to approve the transactions, it was just a recommendation. The executive committee, approving authority, had CEO, CFO, group strategy director, director of external affairs, group general counsel, various regional CEOs. All of whom had a view, coming from their angle and that made the executive committee very effective. There was a broad range of skill sets to look into numerous external factors like political situation - the most fundamental consideration especially in emerging markets and in the African countries. Paying a fair amount for a firm, apparently, was a simple term but it was a result of broad analysis, having number of complexities, which had to be led over time such as relationship with a minority share holder or a regulatory environment, which was not very friendly. So, whenever they built their business case they took into account all such issues.

But in case of Tfone, at the time when they made the plan they were not aware that in 3 years time there would be a price war in the market and the price would fall down. *“How can you assume that? You can build a sensitivity plan and you can say what if the*

customer spending instead of being \$7 per month is \$5 per month? How does it impact valuation? But, then it's not a call you can make, actually price will go down to that point. You always value, based on rational competition and price wars among themselves are fundamentally irrational because they don't benefit to anybody. Because you end up paying over the top for the customers you are acquiring on the basis that you will thrive to secure them into the longer term. But what you are doing is aggressively acquiring market share and causing the economics of the market to tumble. It may not be the place to ask this question", says Senior Manager Legal.

The recommendations made to the committee/board were looked into extensively at different levels. *"You want to make something and then tell the guys now you make a decision, you don't deliver it cold. It's a part of many things. This whole valuation piece and modeling is built up and there is an engagement process, whereby you engage with relevant people in the finance community in the Afone",* says Senior Manager Legal.

They had empirical valuation process, whereby it was built up through different levels of stakeholders, presented to various different people within the business. They would start off with the finance guys and elevated to group directors, the director of financial reporting, regional CFO and then it would move up to group CEO, group CFO, depending on the size of the opportunity, if it was a small deal it would not get to that level of purview, as it was not necessary to engage them. What they did was to work through the stakeholders' engagement process to ensure that every level in the firm was fully engaged to an extent that when it was actually presented to the ultimate decision makers they didn't feel ambushed and everybody was on board, as to the various aspects of the opportunity and the business model. Fundamentally, it was the group's function to work closely to make sure that they had looked every angle of the transaction and stakeholders were properly appraised.

Actually, before it went to the executive committee, the model had already been run through in detail with the group's CFO. All of the executive committee members, by the virtue of the importance of the opportunity, were briefed by their own people who had been involved in the analysis and the evaluation of the opportunity, so that they were fully aware of the risks and the opportunities with relevance of the analysis carried out. It was not as a rubber stamping exercise, lot of debate used to take place in that room around such opportunities even after they had done the work that needed to be done because *"quite often we very rarely deliver something like here is a beautiful clean business for you to acquire and you can get it for a great price; where the actual message is like that here is some options worth considering , this is how we value it, here are the relevant*

threats like the environment and the potential liability on the horizon worth consideration, great growth opportunity and potential for consolidation in the market , potential competitive entrance if you are talking about mobile business, it may be a spectrum option in the future, which may create new entrants or might require significant capital expenditures”, Senior Manager Merger and Acquisition.

So, it was a basket of the opportunities, issues and analysis, which was produced to talk about and discuss but the fundamental point was that they often did not question the valuation at the executive committee level because they knew that they had all of the materials to support what they might ask: Was it a right opportunity for them at that particular point in time? Did stakeholders want them to engage in M&A in that area or in that part of market or in that business sector? Was it giving right message out in the market? Was it actually moving towards doing something that we were not necessarily doing? Had they received signals from the investor community that they wanted to divest their minority shareholding before they start to embark on M&A? There was always a possibility that the case was, presented to the committee, built on factors like returns, cash flows etc. but the committee was of the view that political risk in the area was too great or they didn't want to invest in the region or they only got finite resources and few opportunities to ponder on, so they may prefer one over the other. So, in such cases perfectly done spadework would have not matter or not resulted into something tangible.

There was a range of issues, both from the macro to micro strategic level, that were considered by the committee. Also, there were full sweat of issues that were identified fundamentally during evaluation process and the members were very well briefed when they were discussed. During approval process, many questions were raised; some of the questions were addressed at earlier level during respective stakeholder engagement.

“...questions were raised throughout the process to make sure we don't just drop something in their laps and they say right. One cannot spend seven hundred million Euros on an asset if we don't know anything about it but if we have carefully engaged them throughout the process then we can demonstrate that everybody who has been engaged has given their sign off essentially to the proposal. Then we can make them feel very comfortable with what we are presenting and it really means that we are in the final laps of an approval”, Senior Manager Legal.

Sign offs were also like the supportive material, which they should provide to the committee to make the decision. Transactions seeking final approval, turned down at the board/committee level, were not a regular feature. The percentage of such cases was

relatively small because by the time the cases reached the board they had already got to the stage where they were confident in the benefits to the group, gained, after getting feedback from everybody, who mattered and influenced those decisions.

Valuation, though, was considered to be the end of the first phase of M&A, but it could be undertaken in any phase depending upon the requirement and the size of the transaction. In case of large opportunity, it took place even at the time of non binding offer but it was done in an informal format. The quality of the valuation, compared with the one undertaken initially, would improve over a period of time due to reason that the one at the later stage had to be in a formal manner based on different perspective and the amount of effort that would be added would be much greater. The later one, also, had to pass through different stakeholders involved and, finally, submitted it to the approving authority, to which they were answerable. With this backdrop they had a different view of valuation and the amount of effort, put in at a later stage, was much higher than the earlier one.

At the final stage, the matter was directly concerned with the spending or investing money, where the initial one was taken to the group committee to seek their approval for non binding offer. It was, also, not necessary that all the non binding offers were taken to committee for approval or each and every aspect of the opportunity was looked into, because of volume of such transaction. *“It is something that we should not be spending more time and investing money on, we are not taking every opportunity to the group board and saying that we want to make nonbinding offer, can we please do that. If we do then the board will be meeting after every five minutes because we have huge number of opportunities coming across, we do very small percentage of actual opportunities we look at, I want to make a point that we don’t look at everything”*, Senior Manager Merger and Acquisition.

They simply had to view them according to the strategic guidelines and there was no chance of taking to the approving authority in any case, which was not in accordance with the strategy of Total Telecom. This guideline was equally applied to the case of Tfone.

In this transaction, after non binding offer, they engaged an investment bank as a financial advisor, where legal advisors were hired locally by the Afone Spain and Afone Italy management, which was pretty standard practice. Due diligence process initiated the discussion with the target entity to seek details on some of the points, and working papers of the auditors, so engaged gave clarity on the vital issues to facilitate the transaction and provide assurance that they won’t be taking any liability in addition to what had been

declared. The report of the auditors helped the group's management to make decision as well as the shareholders of the firm to have an independent insight of the issues involved.

The dynamics of both the transactions were different because of their terms of engagement. Spain transaction was pure acquisition and they had to follow standard procedure. Where, in case of Italy, Afone's firm was in joint venture with a minority shareholder, Horizon Communication, and had to take them along while making all the decisions. They had to follow their defined governance process as well, and had to act on the both sides of the spectrum to pull the process together. Because of these peculiarities, both Spain and Italy were totally two separate opportunities for them and they had to: work on different mechanism; face separate governance process; and follow different due diligence approach.

In case of Spain, the external advisor produced their due diligence reports to reflect the state of affairs, where in case of Italy two due diligence reports, as per legal requirements, from the internal as well as external, were produced. So, findings of both the reports produced by KPMG and a law firm were merged, which resulted in enormous amount of data, covering every aspect of the transaction. Compared with Italy, in case of Spain the quantum of information was comparatively less but the autonomy of decision making was much greater, which in fact helped in expediting the completion of the transaction.

The transaction was unique in nature, as there were two set of documents, reports and SOPs to follow. The processes followed were different as they were facing different rules and regulations of different countries. But considering the regulations of the European Commission, it had to be presented and dealt with as one transaction to seek the clearance. On account of this reason, aggregate consideration was agreed and approved by the board, though separate value was attributed to the assets of the respective companies, which were evident from the separate offer letters, sent to the target firm. In response to the offer, the price was agreed on aggregate basis, this did not lead to review the valuation already undertaken to justify the agreed combined price. *"Through bundle offer, in fact, we basically put our self in the competitive advantage. The value of Spain business was half of what Italy was but they had state of the art equipment. The number of customers in Spain was significantly less than Italy but it was more important to them",* Senior Manager Merger and Acquisition.

c) Performance Measurement

Performance evaluation, after the transaction had been finalized and implemented, as per rules and regulations, was not the domain of the Merger and Acquisition Department or

group head office rather it was undertaken at regional office level. *“After acquisition, we don’t involve in day to day execution, direction, and forming of businesses, not at all. There is no role of any other except those who have presented a business case, the sponsors of the acquisition are ultimately responsible, and if something goes wrong they are basically accountable for that. If Italy has presented as a wrong business case then that region is accountable for that. We, at the group level, look at the organizational, legal and valuation issues involved. Not telling the numbers after acquisition, we can say that Italy was an outperforming business case but Spain was not a good experience. Nevertheless, after acquisition we were not being told that there is impairment required”*, says Senior Manager Legal.

To put it in a different way, the valuation material had been produced by a local operating firm—Afone companies operating in respective countries – who were going to run the assets after acquisition. *“So asking someone, at the group level like Merger and Acquisition Department, to take ownership of a business plan that is never developed by them is not logical, the acquisition always demanded very strong engagement for the evaluation of the business plan, which comes from the local operating company, hence, fundamentally they are responsible for the performance”*, Senior Manager Merger and Acquisition. They had regional teams for Europe, Middle East, Asia, Pacific and Africa, who essentially interacted with all of the operating companies within the region. They were in fact responsible for the budget in the business plan, to observe performance and to essentially make them accountable for the performance of acquired assets to make sure that they were hitting the targets, if not then why.

To ensure that the local teams were performing, they had a centralized group or a kind of centralized function without exercising sufficient oversight over the individual transactions. Because there were a lot of efficiencies to be gained from central management, if they had just let them go, some would do well, while others would not do well, one could not get a clue how to benchmark everybody what they could do from the sensitivity of every body’s performance. Therefore, the regional teams reviewed performance of each country periodic basis by going to the level of each of the operating companies. Similarly, in case of this transaction, performance review was undertaken on the country and then on regional level, the role of the group on transaction level was nonexistent.

The respective country would review every element of the business case against performance and every element of the out dated budget against performance. Again the countries were reviewed on the basis of regions, which led to the feedback based on the

facts and figures, causing impairment of the assets. It was beyond the scope of M&A team to monitor the investments after acquisition was handed over for full integration and running by the business that had acquired it.

“We can say that we always do the valuation for them and when the work is finished, the execution and implementation, then, is taken by the region and subsequently the performance is the responsibility of the respective regions like any other department of the company”, Senior Manager Merger and Acquisition. If things went wrong then they might ask the region to run an investment appraisal, take the management to the appraisal process, identify the real ratios and compare the results to identify the failure or under performance. For example, in case of Turkey’s transaction, which was not performing well, the group level people got involved and after undertaking the appraisal exercise they found that the reason for the failure was that the network was not as good as they assessed, so poor network services and wrong marketing campaign made that a wrong business case. This was not a regular thing, and was undertaken when things went wrong and special request was made to the group people to get involved. So, non performance could be due to many reasons, may not be directly related to the transaction.

Referring to this Tfone transaction, though there were two different cases but evaluated jointly and one price was agreed upon, and their performance was evaluated separately by each firm under the shadow of the European region.

In fact, there were few transactions, which were not simply related to a particular country rather had effects related to other countries as well. As in this transaction, which though related to Spain and Italy but the value and negotiation were carried out on combined basis. If their performances were evaluated separately by different offices then the question was that both of them would be missing out some of the factors and synergies attributable to either of the individual entities, which were taken into account while evaluating them. This could be explained by citing an example of procurement or roaming, these were typically two areas where a group of companies had an edge over any other competitors, because if the scale of operation was high one could procure at lower price, similarly the roaming charges, in case of group having different companies ensuring bigger network size, would be low compared to others, which are smaller in scale. In both such cases, one could not specifically associate such benefits to the transaction valuation, because such values were attributable to the group as a whole and were not specifically related to the part of the entire group. Another example could be of purchase transaction. The procurement department was responsible to buy goods on reasonable price and after that they were not responsible for their operational efficiency.

Fundamentally, having separate procurement department was aimed to reduce the procurement cost effectively, which was attained. But in case of non performance of the assets, procured by the group, the local firm would not say that it was not their responsibility and the procurement people should be held liable. So, the practice followed by the group was justified and there was no need to evaluate the performance of acquisitions at the group level by establishing a section with the Merger and Acquisition Department, entrusted with the assignment of evaluation as well as their performance assessment, and this was what was defined in the group guidelines.

Rather than valuing everything on an isolated basis without taking into account the actual experience within the groups, there was communication as well as there was a general sort of monitoring by the M&A team for the performance of the investment without any formal responsibility or dedication in the M&A team for doing that particular task. When transactions were evaluated at the head office, in addition to M&A team the finance and other guys from the local firm also used to work with them and they were well aware of what was happening. Even if the persons were not there, enough documentation was done to justify the basis and the details of the transaction.

The financials results, given on regional basis, gave fair amount of an idea that what was the impact of merger transactions that took place in different regions in different years. In case of the transactions under discussion the published financials before and after the acquisition period on region and country basis gave a clear idea of the financial impact of the transaction. The information available also provided data to know the impact on the operational sphere, which was also of immense value for the analyst as well as investors, who were very keen to understand how well the investments had performed. Another source of such information was webcast, providing preliminary results announced in afternoon of the same day, focusing on certain areas of interest pertaining to acquisitions that had been undertaken. Similarly, the group website had an Investor's Information part, providing material including presentations to the board, group CEO or CFO. From all such material, one could sense the effect of the important transactions that how they had impacted growth or, by looking at the financial performance report of a particular market, how much was due to organic growth. Such information shed more light on the business case of M&A transaction, whether it was going to grow the market or it was simply a defensive play, just to show off your competitive position.

6.4.8 Analysis

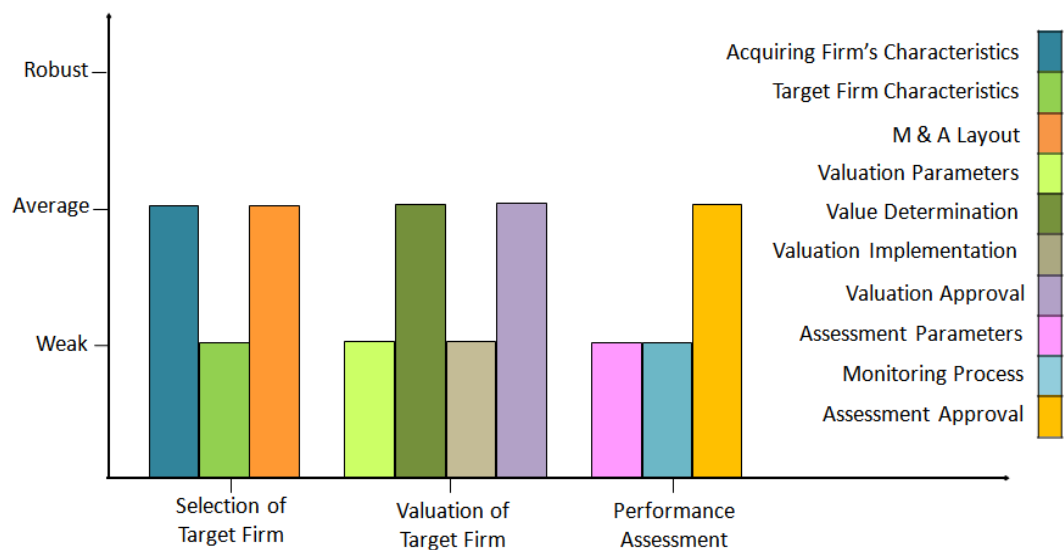
Analysis as stated in Table 17 has been carried out by using parameters applied to the rest of the case studies, to find answers to the research questions:

Table 17: Analysis of Afone Acquisition of Tfone Business in Italy and Spain

PROCESSES	SELECTION OF TARGET FIRM	VALUATION OF TARGET FIRM	PERFORMANCE ASSESSMENT
ACQUIRING FIRM CHARACTERISTICS	Average		
Objectives	Average		
Management structure	Average		
Viability Assessment	Weak		
TARGET FIRM CHARACTERISTICS	Weak		
Potential Assessment	Weak		
Impact Assessment	Weak		
MERGER AND ACQUISITION LAYOUT	Average		
Selection Parameter	Average		
Shareholding Structure	Average		
Mode of Settlement	Average		
Approval	Weak		
VALUATION PROCESS		Weak	
Valuation Parameters		Weak	
Value Determination		Average	
Valuation Implementation		Weak	
Valuation Approval		Average	
ASSESSMENT PROCESS			Weak
Assessment Parameters			Weak
Monitoring Process			Weak
Assessment Approval			Average
AGGREGATE EVALUATION	AVERAGE	WEAK	WEAK

Graphical presentation of above table has been expressed is Figure 22:

Figure 22: Analysis of Afone Acquisition of Tfone Business in Italy and Spain



Selection process was reasonable as the objective was clearly defined and approved. But its weaker areas, like assessment of the viability of the transaction, deeply impacted the

valuation parameters, though the valuation carried out was also not implemented in true spirit. Ineffective performance assessment also added injury to the outcome of the transaction.

Processes related to selection of target firm were satisfactory - neither strong nor below standard. This was on account of balanced Board of Directors, representing in equal number the executive and non executive directors, it also comprised of experts of different areas required for such transactions. There was also clarity on the objective; defining reasons for undertaking the transaction. *“....Merger and Acquisition transactions are driven by different things: to get hold in the market; acquiring the support by the strategy like data communications; pure diversification; consolidation; and just to prevent other people from acquiring an asset, which is the key to the business, so you would otherwise buy unless you thought it there was a risk to your revenue not buying it so...”*, says Senior Manager Merger and Acquisition. Such reasons were widely acknowledged at that time in the industry, though they proved to be incorrect over the period of time. But the weak areas mitigating the positive points were: non preparation of initial professional study to weigh the merits of the proposition by assessing the viability of the transaction to the acquiring firm as well as assessment of the target firm; non approval for the same from proper form at the head office; and initiating the transaction at the regional level, where specialized people having required skills were either not available or were not ultimately part of the team engaged in the final decision making process. Further, layout of the transaction was not strongly defined to have positive impact on the value determination process.

In general, the valuation process, undertaken in Afone, was quite well defined and an attempt was made to ensure that a realistic price was paid for the transactions *“.... typically, what we do is summarizing the different valuation results in a procedure called football field, which gives you an idea of where all the valuations stand so either DCF or multiple, so that you can take a view from different perspectives....”*, says Senior Manager Merger and Acquisition. But in case of these transactions, valuation parameters were weak on account of faulty viability assessment at the stage of selection of the firms, which also caused inadequate impact assessment of the intangibles factors. *“...the reasons for overpaying an acquisition could be like the market conditions as foreseen at the time of valuation were not as they actually responded and the prospective cash flows in the market were lower than their business case... it was assumed at that time that an average customer would be paying \$7 per month and then it was realized in two years time that realizable figure was \$3, so the valuation fundamentals were completely different”*, says Senior Manager Merger and Acquisition.

Apart from valuation determination process weaknesses, there were serious issues pertaining to valuation implementation, as the consideration finally agreed and paid was significantly different from the value determined. The agreed figure was also not put through viability assessment process, which made the entire valuation activity ineffective; the wider was the gap between the price determined and paid, more serious the implications one could expect. Though one should not expect that the valuation done by the acquiring firm should always be the basis for the transaction, but at least the justification for the variation should be transparent and independently undertaken by involving those who were engaged in the initial evaluation process. Another serious issues, observed in this case, was that the entire process of the valuation was carried out by evaluating both the transactions – pertaining to Italy and Spain – separately, as the precise objective of carrying both the transactions was different, but the price offered to the seller, Tfone, was in aggregate, which was different from the sum of valuation of both target firms. *“Through bundle offer, in fact, we basically put our self in the competitive advantage. The value of Spain business was half of what Italy was but they had state of the art equipment. The number of customers in Spain was significantly less than Italy but it was more important to them”*, Senior Manager Merger and Acquisition.

Performance assessment was the weakest of all the three factors, the most significant drawback was that those doing valuation were not part of the performance measurement, rather it was undertaken by the respective regional offices, who, though, had identified the projects but were not directly involved in the price determining and approval process. *“...we can say that we always do the valuation for them and when the work is finished, the execution and implementation, then, is taken by the region and subsequently the performance is the responsibility of the respective regions like any other department of the company.....after acquisition, we don't involve in day to day execution, direction and forming of businesses, not at all.....”*, says Senior Manager Legal. Because of this reason, the assessment parameters were not properly aligned with the earlier processes. As far as monitoring process was concerned, instead of undertaking critical performance evaluation, they simply undertook routine follow up. The objective of this process can only be attained by delegating the area to someone involved not only in the valuation process but also should have the skills and desired authority in the organizational hierarchy to diagnose the outcome of the transaction. As in this case, the price agreed, different from valuation of both the transactions of Italy and Spain independently carried out, was on aggregate basis but the performance evaluation was carried out by two different offices for their own part independently, which was quite unrealistic or, one can say, impractical. The head office was only involved when the results were too bad, requiring some remedial measures and their

approval from the relevant committee or board. All this led to discontinuity of the factors related to identification, valuation, and performance measurement was observed.

In this case, while defining the linkage between factors of different components, we can say that inappropriate assessment of the viability of the transaction led to defining not up to the mark basis of valuation, in addition to the consideration, which was significantly different from the worth of both the firm's so determined. Similarly, in the assessment phase the parameters, which should have been continuation of the parameters defined in the earlier two components, were faulty. This caused ineffective monitoring process, and making this component, as well, feeble

7 Comparative Case Study

7.1 Consolidated Analysis

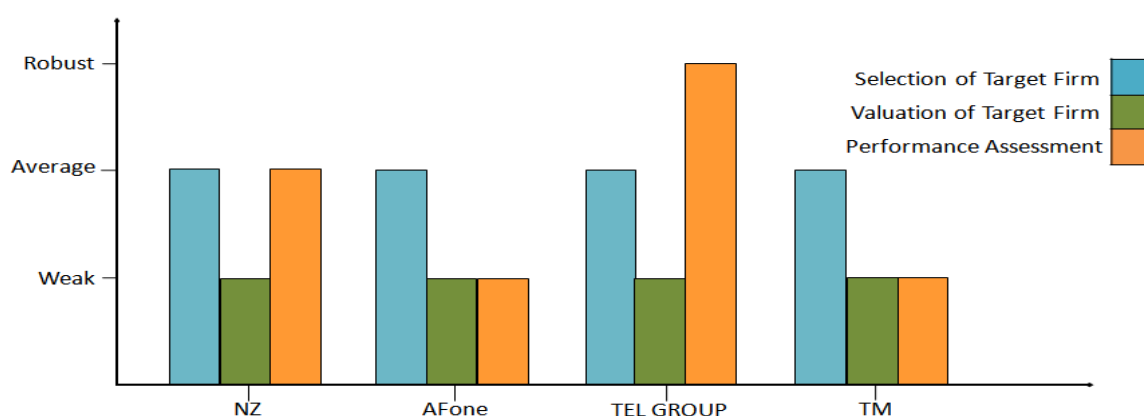
Unlike earlier discussion on individual case study, the objective of this part of the study is to analyze all the cases together to have a view of the phenomena being followed by the companies for such transactions and to draw conclusion on the research questions. Table 18 summarizes the outcome of all the cases in a comparative form.

Table 18: Consolidated Analysis

Case Studies	NZ	AFone	TEL GROUP	TM
Selection of Target Firm	Average	Average	Average	Average
Acquiring firm Characteristics	Average	Average	Robust	Weak
Objectives	Robust	Average	Robust	Average
Management structure	Robust	Average	Robust	Weak
Viability Assessment	Weak	Weak	Weak	Weak
Target Firm Characteristics	Weak	Weak	Weak	Weak
Potential Assessment	Average	Weak	Average	Weak
Impact Assessment	Weak	Weak	Weak	Weak
Merger and Acquisition Layout	Weak	Average	Average	Average
Selection Parameter	Weak	Average	Average	Average
Shareholding Structure	Average	Average	Average	Average
Mode of Settlement	Weak	Average	Weak	Average
Approval	Average	Weak	Robust	Average
Valuation Of Target Firm	Weak	Weak	Weak	Weak
Valuation Process	Weak	Weak	Weak	Weak
Valuation Parameters	Weak	Weak	Weak	Weak
Value Determination	Weak	Average	Weak	Weak
Valuation Implementation	Average	Weak	Average	Average
Valuation Approval	Robust	Average	Robust	Average
Performance Assessment	Average	Weak	Robust	Weak
Assessment Process	Average	Weak	Robust	Weak
Assessment Parameters	Average	Weak	Robust	Weak
Monitoring Process	Average	Weak	Robust	Weak
Assessment Approval	Average	Average	Robust	Average
AGGREGATE EVALUATION	WEAK	WEAK	AVERAGE	WEAK

The consolidated analysis showing comparative position of the components of business evaluation of all the case studies given in the form of Table 18 has been graphically expressed in the Figure 23.

Figure 23: Consolidated Analysis



While looking at the three components of the business evaluation of Figure 23, we can conclude that based on all the four cases, the selection of business processes were carried out in a satisfactory manner; not being the root cause of the failures. Rather the valuation related processes were weak, either marred by inappropriate basis adopted, or the management was overwhelmed by the excitement of going for the transaction and ignoring the demerits of the cases, or professionalism was overruled by not adhering to independent feedback on the issues involved. Performance assessment, on the other hand, varied from case to case but generally was not considered as a significant ingredient of the business evaluation process. The case where it was robust, it overcame the shortcomings of the earlier components shortcomings, and where its significance was not realized, by defining the related processes in an effective manner, it caused, along with the other components, undesirable outcome of the transactions.

Selection of target firm as a component of business evaluation, highlighted in Table 18, was analyzed with reference to factors like assessment of characteristic of acquiring firm as well as the target firm, and defining layout of the transaction. By analyzing this component on the three factors, we can say that the assessment of the acquiring firm, in general, was reasonably carried out; acquiring firms had clarity on the objective of the transaction and their decision making body was reasonably poised. But the assessment of the target firm was not rationally carried out; either the assessment, technically and otherwise in the post transaction period, was not professionally and independently carried out or the management was carried away with the trend in the market without assessing the deeper impact in the post transaction period built on restructured set up. However, layout of the transactions like mode of consideration settlement, management structure in the post transaction period etc. being part of M&A layout was sufficiently defined at the time of selection.

Valuation parameters defining process for all the transactions were not satisfactory, see Figure 23, it was partly on account of the reason that the assessment of the target firm was not adequately addressed, see Table 18. This along with the non-performing of revised viability/valuation

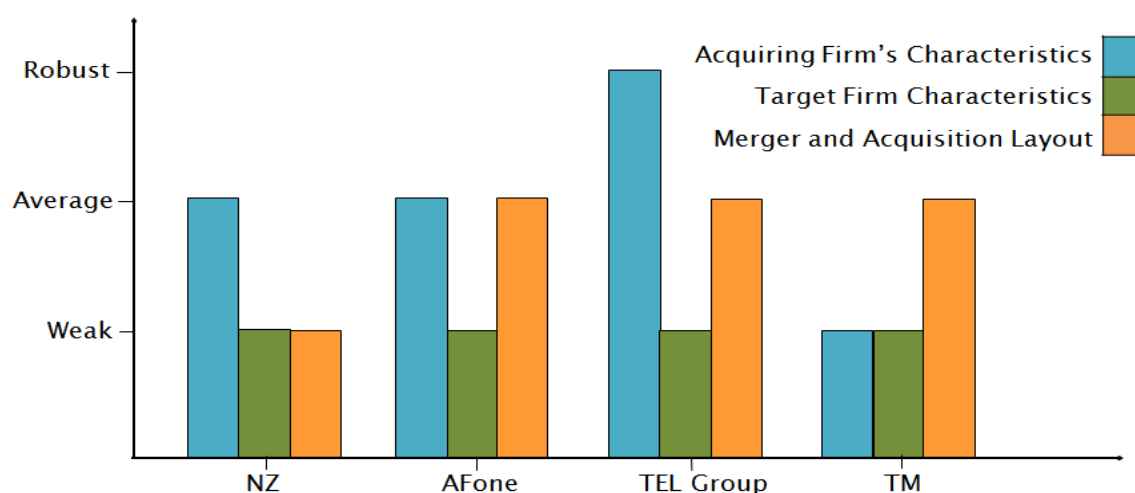
assessment, on the basis of materially different price agreed from what was determined at the initial stage, led to weaker valuation process, and ultimately non viable price consideration, tangibly affecting the transaction's outcome. Process pertaining to approval from the concerned committee or board was, generally, well defined and strongly implemented. Hence, the weakness of this component stemmed from inadequately or improperly defined parameters for valuation resulting in non viable price consideration or proposition. Valuation parameters defining process is correlated with the assessment of the target entity, at the selection of target firm stage, which, as mentioned above was not adequately undertaken in most of the cases. This highlights the impact of continuity of one factor of the component to the other component's factor, and ultimately the outcome of the transaction. This is another factor, like valuation, which was not sufficiently defined and was not recognized as a part of the business evaluation.

Except TEL Group, in all the cases parameters for performance assessment were not adequately defined to ensure continuation of the basis adopted for selection and valuation. Similarly, process followed for monitoring, in general, was not satisfactorily undertaken, potent enough to initiate remedial measure to undo perils of the processes of the earlier components. Against odds of other factors, formal approval process was rightly in place, to seek confirmation from the concerned forum. In case of TEL Group this component was strongly placed right from defining parameters till the approval, this contributed majorly to the success of the transaction, see Table 18.

7.2 Analysis of Selection of Target Firm

The factors considered for the selection of a target firm can be broadly grouped into: characteristics of acquiring firm - that how prepared the firms were for such transactions like clarity on the objective for entering into it; assessment of the viability of the transaction - keeping in view the objective, to start discussion with the target firm and the valuation process; and how related matters like mode of the transaction, shareholding structure and approval from the concerned management level was obtained.

Figure 24: Analysis of Selection of Firm



The management of acquiring firms, in most of the cases, had - self defined - clarity as to why they were entering into such transaction, which in some cases was either based on some study or by following the market requirements, corroborating with the rating in Figure 24. In case of TEL Group, objective was to position itself to one of the top ten suppliers of IT services in France, from a position of only being in the top 50. The transaction would make it capable of serving customers having presence in other main European countries. NZ acquisition transaction aim to complete the product portfolio of connectivity by adding GPS products was clear and focused, as GPS was becoming very important for mobile handset applications. *“The objective behind this acquisition was to complete the product portfolio of connectivity by adding GPS products. GPS was becoming very important for mobile handset application, and the attach rate of GPS was expected to increase from <1% to >50% in 2012. Developing GPS products in house would have taken a long time therefore, our management decided to go for an acquisition”*, said Senior Manager Merger and Acquisition.

TM transaction on the other hand was based on quite a wider objective of either to survive, to gain some position in the market, to have some advantage that is sustainable for the firm, as quoted by its Director Merger and Acquisition *“....we are doing these Merger and Acquisition either to survive, to gain some position in a certain market, to have some advantage that is sustainable for the company”*.

Identically, to capture the market by providing better and wide range of services to the customers as well as to increase the customer base was the desire of Afone while acquiring businesses in Italy and Spain *“Merger and Acquisition transactions are driven by different things: to get hold in the market; acquiring the support by the strategy like data communications; pure diversification; consolidation; and just to prevent other people from acquiring an asset which is key to the business.”* explained its Senior Manager Merger and Acquisition. According to them in 2007 there was a change in the strategic guideline, switching to the policy of “Total Telecoms” which formed the basis of their M&A transactions.

Structure of the boards – decision making body of acquiring firm – were generally well balanced, comprising of persons from different related sectors and shareholders group, taking care of the technicalities and interest of the respective groups, but in the case like TM, such composition was not effective. The nominee members, apparently, had a controlling say in decisions made, however, they were largely dependent upon the input of CEO of the group while making significant decisions like M&A transactions *“these nominee members representing government of France and Italy..... largely dependent upon the input of CEO of the group while making significant decisions including Merger and Acquisition transactions.”*, said Director Merger and Acquisition.

The weak area, deprived of management's attention or not given due weightage, to enter into such transaction was assessment of viability of shortlisted firms for the purpose of final selection, evident from Figure 24 where in all the cases the rating is below average. Assessment, here, is not restricted only to the analysis of characteristics or capacity of the acquiring firm but also with reference to scenario likely to merger after the execution of the transaction, taking into account likely restructuring of the businesses as well as benefits or disadvantages expected to emerge from tangible and intangible assets to serve the very objective. This assessment process, in fact, laid down foundation of the processes involved in defining valuation parameters as well as the valuation, forming basis of subsequent research question.

In case of TEL Group the management was of the view that the defining parameters for assessment is like *"sort of the half moons and full moons sort of analysis. You can't really put numbers around that but you can sort of have a feel of what is the best kind of fit. You look at that fit then you look at what it would take to integrate this with the business. You might look at the brand, the position it has in the market place and how to pay value for that?"* Their weaker initial assessment, thus, resulted in restructuring at a later stage as well, to avoid failure of the transaction. In other transaction undertaken by NZ the technical assessment of the GPS technology owned by the target entity was not sound and caused significant losses, and on top of it future market assessment of the product was also quite below the expectation.

Similar faulty assessment was made in case of Afone and TM, resulting in unsuccessful outcome of the transactions. In case Afone it was admitted in the Annual Report for the 2008, subsequent to the transactions, that their initial assessment that fixed line business would give boost of their revenue in the post acquisition period proved incorrect. Also they did not apprehend the expected changes in related rules and regulations in the respective countries, which caused negative impact on the outcome of the acquisitions. Similarly, TM management relied on very limited number of customers of the target firm to assess its viability *"...unfortunately this significant issue was completely ignored while going for the transaction under study and reliance was placed on only one customer taking care of major junk of the sales..."*, said Director Merger and Acquisition. This was partly on account of excitement of the management to go for a particular technology or product to compete with the similar businesses in the market, as admitted in case NZ by the Senior Manager Merger and Acquisition *"...there was a lot of excitement to acquire a company having GPS technology because at that time GPS was evolving very fast as a feature and it was expected to create a big hype in the mobile hand set market. But we did not have fully matured GPS product and technology in-house, and taking over a company having GPS technology was a better and faster approach"*.

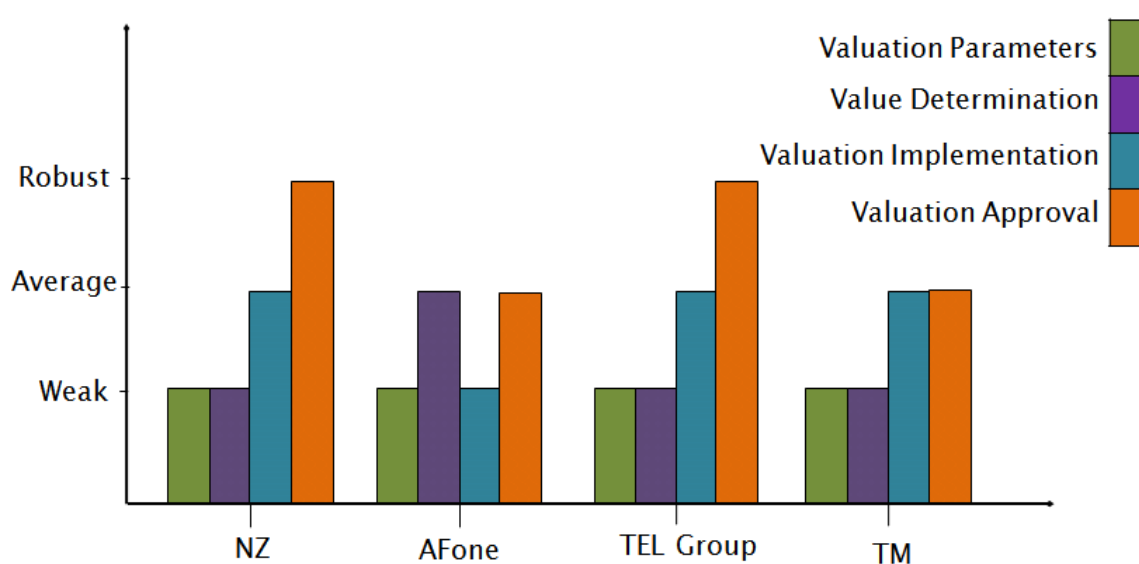
Other related issues pertaining to the transaction, having direct and indirect bearing on the selection process and the outcome of the transaction, inhabiting expected shareholding or management structure, mode of settlement of the consideration and approval desired to ensure the procedural control was, in totality, up to acceptable level.

On the basis of case studies it can be summed up that the process of selection of firms, comprising different processes, in aggregate was averagely handled. But going by the details there were some areas which were not taken care of up to a desired level, and on the other hand some were handled in an effective manner.

7.3 Analysis of Valuation of Target Firm

Valuation process, analysis, has been condensed into broader categories of: defining valuation parameter - to assess the criteria that shall be followed for the valuation, which should be aligned with the assessment parameters followed at the time of selection of the target firm; determining the value of the transaction - deciding the valuation method that shall be followed depending upon the objective of the transaction, basis adopted for the selection of the firm, matters pertaining to the mode of settlement of the transaction, shareholding pattern in the post transaction era, issues relating to restructuring of business and possible impact of intangible factors; implementation of the valuation - whether the valuation carried was implemented, if not, variation in the price agreed and that determined was analyzed with reference to the attainment of the desired objective; and finally the assessment of the processes pertaining to the approval granted for the valuation from the concerned departments and finally by the concerned committee and board.

Figure 25: Analysis of Valuation of Firm



As concluded in Figure 25 and Table 18, Tel Group relied upon typical valuation method of fetching 30% (determined by their past valuation experiences) premium over the market value and derived discounted cash flow to justify the basis instead of totally depending upon the peculiarities of the case and ascertaining value through its future profitability or cash flows. They ignored importance of intangible assets, which are normally taken as backbone of technology industry, its Director Corporate Finance was of the view that “...you can access intangible benefits, but you shouldn’t pay for them...”. They were also not inclined to seek independent professional input in the valuation process rather trusted their in-house expertise and were of the view that “it’s an art rather than a science. When you engage somebody else you can make up any numbers you like, and we know that”, claimed Director Corporate Finance. Because of such reasons restructuring was not effectively planned at the valuation stage and it led to further restructuring during the implementation process as well, as the initial plan resulted into failure.

NZ valuation process was overridden by the excitement to acquire the GPS technology and for this reason deficiencies sprawled over the selection of the target firm also prevailed on the valuation process. This caused inappropriate valuation of the transaction, which they believed was realistic “....the price paid by NZ was reasonable if we look at it from the perspective of GPS technology that how much one would need to invest in it while going for an in-house development....this deficiency of NZ in GPS technology also had an impact on the valuation basis, and if needed, we would have offered higher than the calculated market valuation.” explained Senior Merger and Acquisition. On account of such excitement involvement of independent professionals while assessing the technology competence level and, also, of future of GPS related products market was overruled, which later on had a negative impact on the sales and outcome of the transaction.

Valuation method preferred, in case of TM, was different from DCF method used by other firms, and relied solely on profitability instead of cash flows. DCF according to them could be manipulated to get the desired valuation and degree of certainty in this method was really low “...it’s a dumb way of risk analysis of the acquisition, smarter people are using P&L methods where dumb use this kind of DCF game” claimed Director Merger and Acquisition. They acknowledged that valuation basis, opted as a continuation of improper assessment of characteristics of target firm, were not reliable which led to the undesirable outcome of the transaction, Director Merger and Acquisition of TM confirmed that “the value creation potential assessment was a mistake that was made at the time of valuing the target company and reliance was placed on only one customer taking care of major junk of the sales. Similarly, technology assessment was another area which was improperly addressed.” In this case, as well, different due diligences from financial to technology were carried out in-house without involving any outside professional as they believed that it was their field or core business and did not need any

help from outside. Afone claimed to undertake valuation by following different methods, and conclusion was drawn by comparing the results of each method “....typically, what we summarize the valuation results in a procedure called football field which gives an idea of where all the valuations stand, either DCF or multiple, so that one can take a view from different perspectives” said Senior Manager Merger and Acquisition.

For conducting valuation of the transactions as well as financial due diligence, services of a known professional firm were hired, where the market and technical assessment was carried out in-house by the regional office of Afone to which the cases were related. Major drawback in this case was related to the implementation of the valuation results, the price agreed in aggregate for both transactions was significantly different from the total of the valuations carried out separately for firms in Italy and Spain - this was observed while examining the record provided as a part of case study. To justify the variation neither revised valuation demonstrating the viability of the transactions nor any explanation was available on record. Further, due to lack of professionalism and independence in undertaking market assessment, the actual turnover results varied significantly from the projected figures “....the reasons for overpaying an acquisition could be because of the market conditions as foreseen at the time of valuation were not as they actually responded. Thus, the prospective cash flow in the market was lower than their business case, resultantly, the valuation fundamentals were completely different” explained Senior Manager Merger and Acquisition.

Because of these reasons the rating of the valuation determination process is weak in three out of four cases and the forth one is average, as highlighted in Figure 25. This is true mirror reflection of the marathon of the firms in technology sector, trying to acquire technology through M&A without rationally analyzing the relationship between the value and viability. Implementation of the transaction, meaning agreeing only to viability assessed value, was slightly better than the value determination process as in most of the cases the value agreed was within the range of determined worth. The process involved in seeking approval from the relevant committee or board were reasonably strong, as it was more of procedural work, proper proposal, supported by related projections and details, were prepared and presented to the approving authority to peep into the details of the case. And the reservations, if any, of the members of the board, were generally, placed on record. But those sitting on the board can only have bird eye view of the transaction on the basis of details prepared, generally, by the staff of the acquiring firm without seeking the point of view of the outside independent professionals, refer Table 18 and Figure 25.

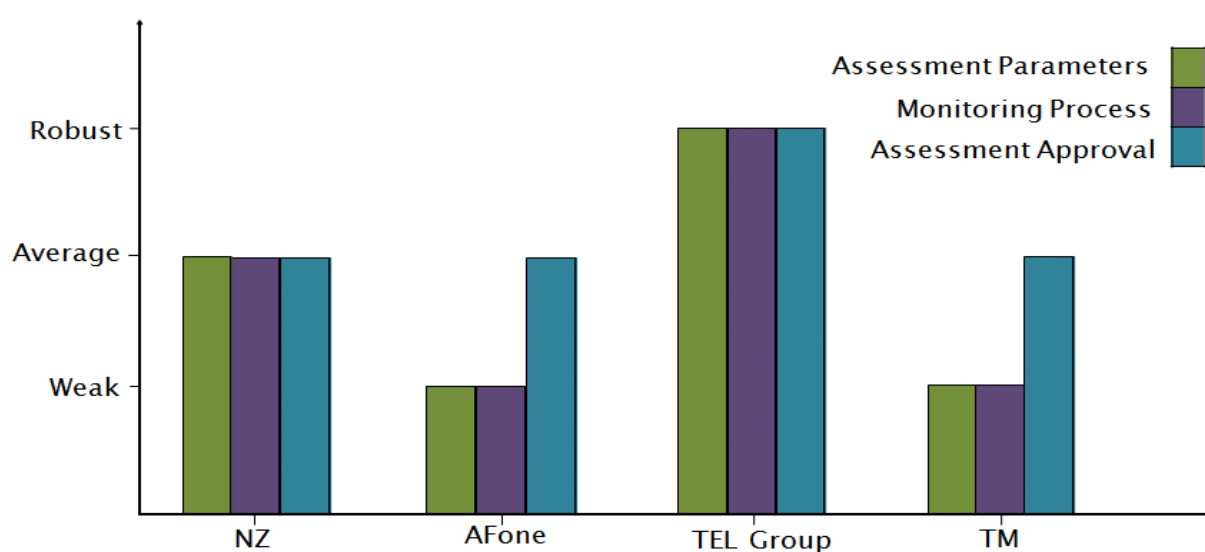
As per analysis valuation was the weakest area of all the three components of business evaluation. Referring to the Research Model followed in this study, inappropriate parameters adopted at the time of selection of the firms resulted in inappropriate valuation parameters, which translated into

inappropriate valuation basis. Further, the processes relating to the execution of valuation were not up to the mark in most of the cases. Thus, either valuation method was inappropriate, not connected with the transaction objective; or calculation was based upon some predefined methods followed by the acquiring firm; projections to carry the valuation and viability assessment was carried out by engaging their own staff without involving the outside independent professionals, ignoring the peculiarities of the transaction.

7.4 Analysis of Performance Assessment

Performance assessment has been analyzed as a part of business evaluation to see that transaction has been implemented and monitored in accordance with the selection and valuation criteria followed by the acquiring firm, and also to rectify the inappropriate assessments made in the earlier stages to the transaction to attain the desired results. Firms processes in this regard have been summarized as: defining assessment parameters - that they were in accordance with the parameters defined for the selection and valuation; the monitoring of the processes - whether they were carried out systematically on the basis of predefined duly approved format by the people who were part of the selection and valuation process, regularly monitored and reviewed by independent people other than those involved in the assessment work; and strength of the processes demanding approval of the competent authority on the assessment process as well as desired remedial measures. Figure 26 gives bird's eye view of the analysis of this component, in continuation to the analysis given in Table 18.

Figure 26: Analysis of Performance Assessment



Adverting to Table 18 and Figure 26, in case of TEL Group the performance function was effective which finally, after undertaking restructuring as a later stage as well, resulted in positive

outcome of the transaction. Though the initial restructuring plan was not properly designed and was far away from the desired requirements. Director Corporate Finance of the group was of the view “....it’s not an exact science, but what you want to make sure is that you are well within range of the things and again we only pay value for the things that we can control. In case of portfolio businesses, like this, one should look at regularly or so and say ok what fits, what doesn’t. So the evaluation is an ongoing process, even after initial acquisition”. This approach - business evaluation as ongoing process - paid them well to take effective measure on timely basis on the issues which were not in control at the time of selection or valuation of business.

In contrast to TEL Group, in other cases this concept of performance assessment, as a part of business evaluation, did not prevail and assessment process was left at the mercy of the department which were not aware of the fundamentals of selection as well as valuation of the acquired businesses, resultantly the unforeseen or overlooked deficiencies or implications of uncontrolled factors of selection and valuation stages could not be rectified by opting remedial measures on timely basis. The linkage of the objective of the M&A transactions with criteria used for the selection of firm, with its valuation and thereafter with the performance assessment was acknowledged by Director Merger and Acquisition of TM by saying “...to look back at some of the investments we made in the past, there may have been different reasons for Mergers and Acquisitions. On account of such reasons the basis of the investment, its valuation and performance measurement criteria is determined. So a faulty selection may lead to inappropriate valuation and performance assessment.”

Similarly, as evident from Table 18 and presented in Figure 26, non existence of performance measurement element, which along with other factors contributed to the failure of the transactions, was evident from the fact that this was either missing or handed over to the owners of the business units, taking care of their management, but not fully involved in the mechanics of planning, initiating and executing the transactions. “There is no separate department mandated in this regard, nor we do have any independent team engaged for the purpose, simply we talk to the guys of the respective business units, if required. The main guy we are looking for is the P&L owner only, if we involve corporate people in the process of performance assessment that would not make any sense” admitted by Director Merger and Acquisition of TM.

Similar views were expressed by the Senior Manager Merger and Acquisition of Afone by saying that “...after acquisition, we don’t involve in day to day execution, direction and forming of businesses, not at all. There is no role of any other except those who have presented a business case, the sponsors of the acquisition are ultimately responsible and if something goes wrong they are basically accountable for that. If Italy has presented as a wrong business case then that

region is accountable for that. We at the group level look at the organizational, legal and valuation issues involved.”

NZ also suffered on account of non-effectiveness of performance assessment part of business evaluation, the shortcoming in the technology was highlighted after product was formally launched and customers started complaining. It took them further six months to rectify the problem but this caused substantial loss to the product and outcome of the transaction.

As concluded in Table 18 and Figure 26, performance assessment was the most neglected part of the business evaluation. Most of the firms never considered it as a part M&A evaluation process, ignoring its alignment with the parameters relating to the selection and valuation of the firm. The case where this function was effective and logically made part of the business evaluation attained the advantage of identifying the related problem in time, by referring to parameters defined earlier, and turned the fate of the transaction to success.

Table 18 further elaborated that, in general, the process of defining parameters for assessment were not satisfactory, the firms followed procedures defined for the rest of the businesses they owned disregarding the peculiarities of the implementation related M&A processes, and by handing over the function to the respective business unit instead of persons involved in the selection and valuation processes to ensure unbiased assessment of the issues involved. Same was the case with the monitoring process - the implementation of the parameters - which was performed like a routine function, aloof from the rest of M&A processes. In a similar fashion the approval for the assessment was not based upon specific information; comparing with what was assessed at the time of selection and valuation; and analyzing the variations for necessary remedial action.

These findings can also be referred back to the Research model to conclude that inappropriate assessment of characteristics of the target firm resulted in defining irrational valuation criteria and ultimately unviable valuations. Further, these deficiencies led to defining inappropriate criteria for the assessment of the performance as well as undertaking the assessment, though quite significant contribution to the outcome was also made by not considering performance assessment function as a part of business evaluation and giving it desired weightage.

It can't be denied that assessment made and plans devised at the time of selections and valuation cannot be achieved cent percent but the variation between the expected with actual results can be minimized, to make the M&A transaction a success, by following controlled and well defined processes, and by making the performance assessment function inherent and effective part of business evaluation.

8. Discussion and Conclusion

8.1 Background

Studies over a period of time have highlighted significance of different factors related to the components of business evaluation, and in some cases, how they influence the M&As. Discussion on the components of business evaluation, highlighting the research so far carried out and how this study would contribute, is enumerated in the following manner:

a) Selection of Target Firm

The subject of Selection of Target Firm has been previously investigated, and researchers like Gilson and Bernard (1986) and Haspeslagh and Jemison (1991) have sought to explain poor post-acquisition returns by citing poor target selection, acquirers' willingness to pay too much, and long and costly integration processes. Similarly, Irfan (2012) has identified commonly used explanatory variables in the literature which determine the likelihood of firms' acquisition.

Motive or Objective (to be precise) has been researched as a first step for entering into merger transaction. On the academic front, there has been a great amount of debate about the motives for this M&A activity over the past three decades (Mueller and Sirower, 1998), including economic efficiency (Jensen, 1993), managerial self-interest (Marris, 1964; Mueller, 1969, 1989), and a market for corporate control (Jensen and Ruback, 1983; Manne, 1965). The objective could either be based upon subjective or objective issues (Faccio and Masulis, 2005). Some of the researchers have investigated managerial motives such as fame and coverage in the popular press associated with acquisitions, status and power associated with managing larger firms, and overconfidence and ego driven decisions with poor acquisition results (Hayward and Hambrick, 1997; Reid, 1971; Roll, 1986).

While selecting a target firm, apart from defining objective, other ancillary factors are also significant in making the decision: nature of the transaction, either merger or acquisition or amalgamation; how the consideration is going to be settled either through swap of shares or payment by way of cash; level of shareholding to be acquired, in case of acquisition, or shared in case of merger; possible restructuring after acquisition; expected management structure; and so on (Luo et al., 2001; Williams and Liao, 2008; Faccio and Masulis, 2005).

Role of structure of Board of Director and pattern of shareholding of a firm in corporate governance has also been researched over the period of time and has drawn diversified views. Sir Adrian Cadbury in the 1990s, a powerful show in 2001-02 by debacles at Enron and WorldCom, and the subsequent Sarbanes-Oxley legislation argued that companies needed to have powerful shareholders and independent directors to keep a watchful eye on managers. In 2009 both the New York Stock Exchange and the NASDAQ demanded that companies should have a majority of independent directors (Schumpeter, 2010). Contrary to this, research by Erkens et al., (2009) reinforced that the directors who were well informed about finance performed no better than know-nothings. Far from helping companies to weather the crisis, powerful institutional shareholders and independent directors did worse in terms of shareholder value. They argued that outside shareholders may be inherently more risk-hungry than managers who have their livelihoods tied up with their companies.

Similarly, Shleifer and Vishny (1997) suggested that controlling shareholders is led by the incentive to pursue private benefits at the expense of minority shareholders. When a state is holding controlling shareholding in a firm, various public objectives pursued at the cost of performance (Liu et al., 2012; Bai et al. Wang, 2000; Sun and Tong, 2003; Zhang et al., 2001). Extent of equity ownership in case of cross-border mergers or acquisitions, particularly, has been emphasized as important because of its implications for resource commitment, risk, returns, and control. It has been studied as a major consideration while selecting a firm as well as determining the price consideration (Anderson and Gatignon, 1986; Luo et al., 2001; Barkema and Vermeulen, 1998; Chen and Hennart, 2004; Das and Teng, 2000; Hennart, 1988; Hennart and Reddy, 1997; Pisano, 1989). Chari and Chang (2009) have investigated different scenarios in which foreign firms would seek a lower share of equity in local firms.

Apart from the factors influencing decision making process like level of shareholding as well as composition of the boards or committees, other issues pertaining to geographical location, method of acquisition and nationality of the target firm may also result in abnormal returns to the shareholders of the target firms and in exceptional cases to the shareholders of the acquiring firms (Williams and Liao, 2008). Hence, should be given due weightage, not only at the stage of selection of firm but also while undertaking their valuation (Hannan and Steven, 2009).

The mode of settlement of such transactions has also been studied as central part of the selection of firm and accordingly for M&A transactions. It has been analyzed that cash as mode of payment for settlement of mergers are particularly strong when a bidder's

controlling shareholder has an intermediate level of voting power in the range of 20-60% (Faccio and Masulis, 2005). Mode of settlement has also been analyzed in the context of success rate of the transactions, hence, can be used as a tool in their execution. The probability of merger completion/success analysis, using deal/firm/equity price information, revealed that payments in the form of cash tend to enhance the likelihood of a successful takeover attempt, compared with the use of stock in payment (Branch and Yang, 2003). The decision of whether to finance with cash, stock, or a combination depends on a number of factors, including accounting and tax implications (Epstein, 2005).

Structure of M&A transactions has been studied as dependent upon the level of resource commitment and control, meaning an ability to influence management systems of the organization with an objective to improve its competitive position and maximize returns on firm-specific assets (Agarwal and Ramaswami, 1992). This was discussed with reference to hotel industry, where it may fall in between licensing and that a wholly owned subsidiary (Sa'nchez and Pla-Barber, 2006; León-Darder et al., 2011).

In addition to the impact of all related factors, the organizational learning from past experience, referred as “imitation”, helps in making M&As decisions. The imitation process can be with reference to firm’s own experience (firm level), market experience (market level) and industry experience (industry level) (Yang and Hyland, 2006).

Such studies over a period of time have highlighted significance of different factors related to the selection of target firm, and in some cases, how they influence the M&As. The factors and their role as referred above, investigated, is related to: objective or motive of entering into the transactions; mode of settlement of transaction in cash or equity swap basis - in the form of a range of exchange ratios or fixed exchange ratio; level of shareholding in the acquired or merged firm under different circumstances; impact of nature of industry, geographical location, size of the business etc. on the transactions outcome; impact of level of shareholding in the acquired firm; role of outside directors and their number on the board of directors in decision making process; exposure of the firm, management, directors and industry to merger transactions and their impact on the success of the transactions. But the role of all these factors, so far researched, as a contributor to the subsequent processes of business evaluation - pertaining to the valuation of the transactions and their performance assessment – and finally to the outcome of the transactions, as elaborated in the research model, has not been dealt upon. Though, the previous studies helped in identifying the related factors of each component of business evaluation and the processes so involved, which helped in summing up their

effectiveness to reach to the conclusion. This study, hence, does not deny the findings of the research carried out earlier; rather, it makes use of them as a vehicle to explore areas which remained untapped.

b) Valuation of Target Firm

Successful M&A need to be established on the basis of reasonable assessment of the target firm's value. Because of the uncertainty that the value of a target firm often have, valuation is to be carried out in different situations arising out of decision making in M&As (Zhu and Jin 2011).

Management's excitement or keenness to go for a merger or acquisition, driven by trend in the market or to supersede competitors, at times, has been investigated to overrule the processes or principles to be followed for a valuation. Luo (2005) has concluded that outsiders, not normally carried away by the excitements, are realistically well aware of the merger effects and its valuation than the insiders.

Technically speaking value determination of a target firm in M&A transactions has been investigated as not simple on account of varied reasons like: intangible assets of the firm; restructuring or reorganization of the target and acquiring firm expected after the transactions; likely positive or negative impact of the transaction on the acquiring along with the target firm (James, 2005; Basu et al. 2008; Reuer et al., 2003; Canina et al., 2010). Apart from these financial reasons there could be non-financial factors like social, cultural, political issues involved as well, and for such cases criteria for valuation may be different from what would have been followed for financial reasons. But, the objective of the transactions bellwethers the related factors to be adopted/considered for execution of the valuation. (Astrachan and Peter, 2008; Faulkner et al., 2002; Gande et al., 2009)

Due diligence carried out for valuation, has been studied as a process which ensures that the potential deal can succeed in implementing the proposed strategic vision. The due diligence team should include accountants, lawyers, technical specialists, and other experts. Numerous nonfinancial elements, including the investigation and evaluation of organizational fit, ability to merge cultures, and the technological and human resources capabilities and fit, also has been investigated as part of due diligence scope. It should focus on financial as well as non financial issues (Epstein, 2005).

Valuation has been studied as not a onetime exercise, rather it is a continuous process and the forecasts prepared for the purpose should be reviewed and changed with the changing circumstances as well as on availability of more facts and figures till the price is finalized. Dommert and Getzen (2005) have concluded that effective and realistic valuation

demands regular review of basis of valuation even during the process of negotiating the price with the sellers.

Conclusion has been drawn that while determining the price consideration, in addition to the value of the business being acquired, premium is paid to the sellers, calculated and analyzed by applying different statistical techniques to determine weightage of financial issues (Beckman et al., 2002). Along with the financial, non financial factors which can be related to the emotional attachment with the businesses, should be considered. Such factors can also result in emotional cost instead of benefit, like engaging in the family business someone who is not competent (Astrachan and Peter, 2008).

Study by Epstein (2005) has concluded that while valuing M&As, the effects of external factors, especially the economic factors, should be considered. In a strong economy, a poor merger may appear to be more successful, while a strong merger may look weak under poor economic conditions. Canina (2009) on the other hand has emphasized on the external factors pertaining to customers, suppliers, quality, pricing etc. The internal cohesion, integration or relatedness of both the merging firms is also very important for merger related decisions like selection of firm and its valuation. Such function, he suggested, is more relevant to the horizontal mergers. Doukas and Kan (2004) have researched that diversification of nature of business, like geographical diversification, also causes ripples in the valuation process, and negatively impact when the business of target firm is diversified from the business of the acquiring firm.

Other than the features of the transaction, external factors like government regulations, also, have deeper impact on business valuations and transactions outcome. Yulong et al. (2004) substantiated this through statistical analysis of data available from stock exchanges, and investigated that let alone the impact on merging firm, such regulatory role has a negative impact on the industry as a whole. Assessment of political aspect has also been argued to be important along with the issues pertaining to the two firms, and it has been investigated that political uncertainty negatively impacts firm's value. The risk level may vary with the change in circumstances as well as the characteristics of the firm involved (Beaulieu et al., 2005). Like political factors, geographical aspect – location of the firms - is also significant while valuing M&A transactions. Internalization Theory and Imperfect World Capital Market theory proved that multinational diversification adds to the value of the firm; on the contrary, it discounts firm's value when diversification is on industry basis (Gande et al., 2009). Although, some of the factors like size of the target firm, its ownership structure (private vs. public), and structure of the bidder (diversified

and none diversified) have positive effect, but the high tech nature of the bidder and pursuit of targets in related industries leave negative impact (Aybar and Ficici, 2009).

Giessner et al. (2006) has researched that employees of merging organizations often show resistance to such transactions. Their support can be gained by ensuring premerger status through planned merger pattern. Involvement of employees on both sides in the entire merger process helps in removing the uncertainties in their minds as to its impact on their employment as well as for building their confidence through their ownership of the entire process (Amiot et al., 2006).

Elaborating the valuation process it has been investigated that there should be clarity on integration mechanics, which is vital for the success of merger. Key decisions should be made in the areas of leadership, structure, and timeline for the process. Companies often destroy mergers during the integration phase therefore processes covering the management of human resources, technical operations, and customer relationships must be carefully studied and structured. This stage begins with proper premerger planning at the time of selection of target firm, which is dependent upon good systematic valuation (Epstein, 2005).

Signifying the importance of valuation process it has been argued that it cannot be avoided by relying on the value at which shares are traded as they do not reflect the true value to settle M&A consideration Mellen and Sullivan (2007) has revealed that they are often traded at 30 percent discount to what they would value. Not only the factors that impact the valuation process, the technicalities involved in calculating the amount also play vital role, and it varies from one transaction to another, based upon its features and objective (Kamstra, 2003). It has also been researched that the process is also very much linked with the assessment of two different environments of merging firms, avoidance of which may cause; cultural clash, firm identification issues, communication difficulties, ego clashes etc; in the post merger period. The assessment can be undertaken by properly planning restructuring at the initial stage and by clearly identifying the role of leadership during implementation (Bligh, 2006). On the contrary, Morosini et al. (1998) has investigated that the representation of the local culture in an organization is instrumental in establishing a link between the two cultures involved in the transactions. Understanding about the culture and environment of a firm or a country can be augmented with the help of past experiences of the acquiring firm in handling merger transactions (Dikova et al., 2009; Chakrabarti et al., 2008), emphasizing the need to engage experienced people in the business evaluation process.

Reuer et al., (2003) has researched that wrong valuation often results in failure of mergers and non addition to the shareholders worth, this risk can be mitigated by adopting Contingent Payouts method of payment, which is more common while acquiring: noncore businesses as compared with core businesses; industry which is more technology related; intangibles being major part of the business value and international acquisitions rather in case of local ones. However, its application is more reliable when reinforcement of laws in acquired firm's country is satisfactory.

The related studies, as highlighted above, have underlined the behavior of stocks value in the pre and post merger situations and other valuation methods and their impact. Significance of intangible factors for conducting the valuation has been highlighted and conclusion has been drawn that merger failures are also on account of improper valuations. Impact of restructuring of merged or acquired entities for the valuation has also been amplified. Due diligence as a vital component of valuation has been emphasized, requiring attention to not only financial but also to non financial matters including the investigation and evaluation of organizational fit, ability to merge cultures, and the technological and human resources capabilities fit. In contrast, valuation process as a continuation of earlier process of selection of target firm and its related factors, to arrive at sound basis for valuation by understanding the peculiarities of each and every transaction, has not been researched. Although, their findings, enumerating the valuation methods and related processes, have been supportive in analyzing the case studies, whether the processes were impartially as well as professionally undertaken by relying upon the findings of the earlier stage of business evaluation - selection of target firm – to assess their contribution in defining basis for the performance assessment and, ultimately, the outcome of the transactions.

c) Performance Assessment

In this study performance assessment refers to a measurement or monitoring mechanism adopted by the management of the acquiring firm, as a continuation of the business evaluation process. The parameters of such assessment should, logically, be aligned with the basis followed for the selection or valuation of the target firm.

Epstein (2005) has researched that the causes of failure of M&As has often been shallow and the measure of success is weak, accordingly claim of some of the studies that 7 out of 10 mergers do not come up to expected promise is not correct. He has concluded that M&A, over a longer period of time has been studied in terms of narrow and uninformative measures, such as short-term stock price. This led to inappropriate conclusions, as many studies investigating the cause of failure of M&A transaction have

taken such findings at face value. Lubatkin, (1983, 1987) has also argued that the results of acquisitions are difficult to assess accurately.

Performance of M&A has been widely discussed and different basis of measurement have been advocated, including those related to stocks market value before and after merger announcements and execution. Also in some cases financial ratios, sales volume, profits etc. have been used for the purpose. Heywood and McGinty (2007) have researched that performance assessment of the merger results can be carried out on cost factor basis, by comparing pre merger results of firms with the post merger results on account of change due to closing down projects or by bringing operational efficiencies. EVA (Economic Value Addition), another performance measurement method, based on operating results subject to adjustment of cost of equity has been, researched by Yook (2004), has argued that the financial statements data is normally manipulated, and reliance on them for significant decisions cannot be placed. Also, stock market data is not reliable for the purpose and is based on prevailing trend in the market or on the basis of data available for previous period. Click (2005) has suggested that Return on Assets method, subject to country risk, can also be conditionally applied to measure the performance of mergers. Sung and Gort (2006) on the other hand have discouraged the use of standard methods for all the case because, according to them, mergers do not cause increase in productivity nor reduction in costs on account of economies of scale of production. Also, according to them, such transactions do not result in significant change in the shareholders wealth.

Several key variables have been identified in the literature as potentially affecting the performance of a target firm after acquisition which are; size, type of purchase, and ownership structure of the target firm (Kiessling et al., 2008). Increase in organizational size adds complexity with increase in structural elaboration and formalized systems for planning, control, and resource allocation (Quinn and Cameron, 1983; Kusewitt, 1985). Resultantly, it can create progressively stronger resistance to fundamental change (Tushman and Romanelli, 1985). Regarding mode of payment, from the acquirer's perspective, it can use cash holdings, increase debt by borrowing, sell more equity, or use a combination of these. Each option has its own managerial ramifications (Kiessling et al., 2008). Similarly, the ownership structure of the target firm (e.g., privately owned, publicly owned with dispersed stockholders, or publicly owned with few majority stockholders) plays a vital role in performance. Privately owned firms are typically managed by an owner who is also a member of the top management team, this may or may not suggest that the owner is either retiring or going to pursue other interests (Kiessling et al., 2008).

The top management team (TMT) of the target firm has been studied as critical to enhancing post acquisition performance of the acquired firm as the TMT possesses knowledge critical to ongoing business operations, and its members' departure may heighten the level of disruption and uncertainty in the firm following the acquisition (Hambrick and Cannella, 1993b; Krishnan et al., 1997; Singh and Zollo, 1998).

Kiessling et al., (2008) is of the view that performance assessment can be made on tangible as well as intangible factors represented by financial plus nonfinancial outcomes and a comparative method is more effective in extracting responses (Lau and Hang-Yue, 2001; Tomaskovic-Devey et al., 1994). The scale of measurement can be adapting preexisting measures (Lau and Hang-Yue, 2001) and integrating them with expert opinion and information gained in pilot-testing (Hambrick and Cannella, 1993). Mayer (2013) is of the view that the main function of companies is to boost shareholder's value is based on a misunderstanding. Firms are not just devices for lowering transaction costs or bundling contracts together. They are devices for getting groups of people—workers and managers as well as investors—to commit themselves to long-term goals.

M&A transactions frequently fail to acknowledge the issues like the role of people, knowledge gained, or other intangible goals are often overlooked (Hunt, 1987; Kitching, 1967; Levinson, 1970). This has also been substantiated by Cartwright and Cooper (1993) and they have investigated that acquisition decisions and negotiations still typically center on financial results and rarely involve consideration of the personnel function. Kiessling et al., (2008) has argued that acquisition performance can be gauged with reference to: perceived financial acquisition; goal attainment; and employee satisfaction, representing financial plus non financial outcomes factors (Kiessling et al., 2008).

As evident from the above studies, the performance measurement basis, by following the path of merger objectives and business evaluation criteria, as discussed in the selection of target firm part, has not been discussed and analyzed in depth. This has been substantiated by Haleblan et al. (2009) by suggesting that research needs to be initiated to develop a more detailed and thorough theoretical and empirical framework of this concept (Haleblan et al., 2009). Emphasizing the logic behind the selection of basis for the evaluation of merger success it has been argued that it must be much broader than a simple change in stock price. Epstein (2005) has stressed that we must instead ask what the strategies were for the merger and whether the goals were achieved or not. At the same time, we must evaluate whether the strategy and vision were well conceived and whether the merger's conception was superior to possible alternatives. Finally, we must be prepared to disaggregate the non financial factors impact from the results of the merger

in order to ascertain what changes are truly attributable to the merger. Only then one can label every merger as a complete success or failure.

This establishes a point of view that performance assessment cannot be simply made by referring to profitability or figures of the financial statements rather on the basis of long-term objectives – subjective as well as objective ones – should be kept in mind. In a nutshell, the traditional way of performance measurement need to be redefined to make it more goal oriented – defined at the time of selection of target firm and adopted while determining the worth of the M&A transaction. In addition to the goal/objective there should be continuation of other related matters in all the three stages, to make a transaction a success.

8.2 Conclusion

The study is focused on the outcome of M&As in the context of the evaluation of target firm's business by the management of the acquiring firm. For the purpose the processes involved in the business evaluation relating to the selection of firm, its valuation and performance assessment, have been investigated to analyze their interrelationship as well as on the results of such transactions. Outcome of the analysis, as detailed below, has revealed that sound business evaluation process positively impacts the outcome of M&A transactions. Further, business evaluation process needs to be elaborated to include performance assessments as its important ingredient.

The factors that influence the selection of target firm have been identified and, as elaborated earlier, investigated in the light of research already carried out. Also, as a part of case studies undertaken, their implications on the transactions outcome as an element of process of business evaluation, was assessed. Findings revealed that the assessment of acquiring firm is reasonably carried out, as clarity about the transactions object prevailed and their decision making body is reasonably poised. Perversely, the evaluation of target firm, as observed in all the cases, is not reasonably undertaken as it is stained with wrong potential assessment of the target firm, either undertaken in-house - as observed in case of Afone and TM, or based on market sentiments - evident from NZ case; hence avoiding professional and independent view. Though other related factors like mode of consideration settlement, management structure in the post transaction period etc. are sufficiently defined.

Valuation related matters, so far researched, were also analyzed in the context of business evaluation process while conducting case studies. Results reveal that the process related to defining valuation parameters for the transactions is not satisfactory; it is partly on account of the

reason that the potential assessment of the target firm is not adequately addressed, as observed in all the cases except Tel Group. This along with the non-performing of revised viability/valuation assessment, on the basis of materially different price agreed from what was determined at the initial stage, noted in case of Afone and TM, led to a weaker valuation process, and ultimately non viable price consideration, tangibly affecting the transactions outcome. Process pertaining to approval from the concerned committee or board was, generally, well defined and strongly implemented. Valuation parameters defining process is correlated with the assessment of the target entity, at the selection of target firm stage, which, as mentioned above, in all cases except Tel group, was not adequately undertaken. This highlights the impact of continuity of one factor of the component of business evaluation to the other component's factor, and ultimately the outcome of the transaction.

Like other components of business evaluation, performance assessments related matters were also investigated. Resultantly, it can be concluded that the parameters for performance assessment are not adequately defined, evident in case of Afone and TM where they were weak and average in case of NZ. This resonates the weakness of the processes followed for the potential assessment, at the selection of firm stage, as well as valuation of target firm. Similarly, process followed for monitoring, weak in case of both Afone and TM, and average in case of NZ, is not satisfactorily undertaken, to initiate remedial measure to undo the perils of the processes related to earlier components.

It can, thus, be summed up that business evaluation process plays a strategic role in the outcome of M&A transactions. The factors involved in all the three components – selection, valuation and performance assessment - have a chain relationship, their continuation blended with professionalism as well as non biased frame of mind of handlers, can improve their chances of attaining the objectives for which they were undertaken; which one can rightly claim to be the success of such transactions.

8.3 Theoretical Contributions

Earlier studies have highlighted the factors that may form process of business evaluation and its components but have not discussed that how all such factors, as a flow, in the form of process impact the components of the business evaluation and finally the outcome of M&A of transactions. Hence, they have provided food for thought by defining the ingredients that should exist while assessing effectiveness and interrelationship of the business evaluation components and, eventually, the process in totality.

The study has defined the basis for the processes involved in the business valuation to analyze that how they influence the transactions. Our results thus lead to redefining the scope of business evaluation to make it more realistic and effective. In conclusion, attempt in this study has been made not to contradict the finding of earlier studies on the subject rather to expand the scope of business evaluation and its components to assess its role in the success or failure of the M&As. It can, therefore, be argued that this research has enriched earlier research on the related subject by giving new dimensions to their findings and make them useful in exploring another significant area that could help in averting M&A failures and to make them achieve their well thought out objectives.

Based on case studies undertaken, we can say that business evaluation processes have a deep impact on the outcome of the M&A transactions. Sounder, controlled and inter linked processes can ensure better chances of success of such transactions, compared to the cases where instead of robust processes more emphasis is placed on preferences based either on the individuals running the affairs of a firm or driven by the excitement to overtake the competitors in the market. Through this study, it has been observed that, generally, the professionalism is compromised or circumstances are tailored to suit the keenness or excitement of the management to enter into the transactions, based upon objectives which in most of the cases are not thoroughly worked out.

Further, the boundaries of the business evaluation process, for the sake of M&A transactions, need to be elaborated to make performance assessment as its integral part. This would help in shaping the outcome of the transactions by taking remedial steps, at the time of implementation of the transaction, on the issues which were not perceived at the time of selection of the firm or while undertaking its valuation, unless the deficiencies of the earlier two stages of business evaluation are not fundamentally incurable. So the strength of the processes pertaining to selection of firm and valuation can minimize the gap between the perceived/estimated results and the actual outcome, where the performance assessment can overcome the deficiencies of the earlier two stages through the robustness of its processes. The effectiveness of all these processes, and the business evaluation as a whole, can be ensured through the continuation of parameters in all the three stages.

The study can be termed as based on incremental theory or model as it expands the scope of earlier studies to investigate another area which can influence the outcome of M&A transactions. It has, primarily, combined RBV and TCE to undertake literature review, this combination has also been emphasized in the literature by Conner and Prahalad (1996); Santos and Eisenhardt (2005); Wagner (2006) and Williamson (1999), and they have used it to investigate strategic relationship issues between parties involved in transactions. Use of the two theoretical

perspectives together, therefore, increases the understanding of the relationships among internal and external factors that impact the effective M&A decisions.

8.4 Managerial Implications

These revelations would help not only the investors and sponsors but also the management to place greater reliance on the strength, professionalism and independence of the business evaluation process. It will guide in developing better understanding of its scope particularly with reference to the performance assessment. More importantly, this would also bring clarity in understanding the relationship and behavior between different components and related factors of business evaluation. It would make them understand that the scope of business evaluation process truly means: defining the objectives and handling all other matters pertaining to the selection of a firm, independently; undertaking valuations professionally, by continuing with the parameters used for the selection of firm, and implementing it impartiality; and realizing the significance of the performance assessment process and undertaking it independently by continuing with criteria applied for the selection as well as valuation of the transaction.

All these would lead to a better success of the M&A transactions, which are considered as linchpin of the business growth as well as contribute vitally to national and international economics.

8.5 Limitations

Study embodies the issues pertaining to business evaluation for the M&A transactions on wider spectrum covering interviews of one or two key players and not ensuring participation of individuals involved at each stage of the transaction, which may lead to skepticism as to its findings. Creating room for more focused research to analyze the impact of each component of business evaluation individually, in detail, by opting research methodology, more, based on thorough examination of documents used for the implementation of processes along with the interviews of the persons having hands on experience of the processes. This objective can also be achieved by adhering to observation as qualitative research methodology (Murphy and Dingwall, 1998) or by using observation and interviews undertaken simultaneously or in a sequential manner (Currey et al., 2003).

The possibility of investigating the subject by adhering to quantitative method, using survey based approach, by sending elaborated questionnaires on mass scale to the key persons of the firms who have undertaken such transactions, can also be looked into to corroborate the findings of this study. Albeit, this methodology would analyze the subject in a generalized manner and may also

carry the baggage of compromised quality information which otherwise could be ensured by interacting directly with the each concerned key person and examining the related documents.

8.6 Suggestions for Future Research

To add different flavor to research topic business evaluation process in terms of merger outcome can, also, be researched on the basis of size of businesses, that how do such processes impact the outcome of M&As transactions undertaken by small, medium and large size firms. Instead of technology and telecommunication sector, on which all the case studies of this thesis are based, other sectors can also be explored to validate the findings. Findings based on M&As in developed countries may not be applicable to the case of emerging economies as these economies differ from developed countries in terms of institutions, levels of economic development and marketization (Liu and Zou, 2008). The scope of the study can be extended by selecting cases from emerging economies. Making performance assessment as a part of business evaluation can, also, be further researched as a separate study to analyze the matter in detail and suggest how it can be pursued to make it an effective ingredient of business evaluation.

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