

**UNIVERSITY OF PENNSYLVANIA
THE WHARTON SCHOOL**

MGMT-721

CORPORATE DEVELOPMENT: MERGERS AND ACQUISITIONS

SYLLABUS – SPRING 2014

Instructor: Arkadiy Sakhartov, Ph.D., Assistant Professor, Management Department,
Wharton School
Phone: (215) 746-2047
E-mail: arkadiys@wharton.upenn.edu
Office: 2017 Steinberg Hall–Dietrich Hall

Section 1: Tuesday/Thursday 10:30am–11:50am; JMHH F90
Office hours: by appointment

Course description

As markets globalize and technologies rapidly evolve, firms change to keep pace with and take advantage of new opportunities. We witness emergence of distributed global firms leveraging their capabilities around the world in real–time and blurring traditional organizational boundaries. To catalyze this transformation and stay ahead in competency and time to market, companies apply powerful but often risky inorganic strategies.

This course explores such modes of corporate development as alliances, corporate venturing, and mergers and acquisitions. The objectives are three–fold: (1) to arm you with tools for selection of appropriate growth strategies; (2) to provide you with insights into management of strategic partnerships; and (3) to develop a comprehensive framework for executing M&As.

The emphasis is on strategic and operational aspects of these transactions, rather than merely financial considerations. While we will cover deals from a variety of industries, a number of them are from technology–based sectors. This is not only due to the recent prevalence and continued importance of external growth strategies in these sectors, but also because the fast pace provides early assessments of outcomes and management lessons. As we will see, insights from these settings are generalizable to many other contexts.

The course has six modules. We start with scrutinizing economic rationales for corporate development. We then consider the fit between corporate strategy and corporate structure required for successful corporate development. Next, we outline different modes of corporate development, focusing on applicability and management approaches for each mode. Afterwards, we delve into acquisition screening and deal–making. The final part of the course is dedicated to post–merger integration.

General pedagogical approach

This is an interactive, applied, case–based course with accompanying readings and quantitative exercises intended to structure your analyses. To guide you through the course materials, discussion questions for each session and homework assignments will be set prior to the session. Readings are designed to provide a starting point for analyzing the case, but extension of the ideas is encouraged. Given the nature of the course, we will also apply the lessons from the cases to understand the challenges and implications of relevant recent and on-going deals. To facilitate this process, you should subscribe to the New York Times’ free e-mail newsletter DealBook, to keep abreast of current deal activity (sign–up at www.nytimes.com).

Evaluation and other course policies

Course evaluation is based on the following components:

Individual class participation	25%
Individual homework assignments	10%
Individual mid–term quiz	15%
Group project presentation	15%
Group project paper	35%

Please note that class participation is a critical component of your grade. That element constitutes a quarter of the overall course evaluation and a half of the individually–determined grade. Class participation is also crucial for learning in the course because participation helps you better understand the material. Accordingly, it is expected that you are well–prepared for each session and thoughtfully and frequently contribute to case discussions.

Four homework assignments are intended to enhance your understanding of novel and subtle techniques useful in designing and implementing corporate development strategies. The homework assignments follow a detailed in–class explanation of the involved technique. Although the direct contribution of each assignment to the grade appears small, careful understanding of the techniques emphasized in the assignment is required to successfully pass the mid–term quiz and is useful for the group project. Requirements to the group project are separately discussed in the next section of the syllabus.

Canvas is the preferred means of communication for the course. In particular, discussion questions and other assignments for each class will be posted on Canvas in advance. Presentations and handouts will be posted on Canvas after the respective session. Completed assignments and the term projects should be submitted via Canvas.

Course schedule and deadline are strict. In particular, each student must be present in class during the time of the mid–term quiz. In the case of an excused absence, the absent student is offered an opportunity for a makeup quiz at the time and in the form selected by the instructor. Excused absences are defined as documentable personal illness, grave personal difficulties such as a death in the family, or religious observance. In the case of an unexcused absence on the quiz, the absent student is not offered a makeup quiz. Homework assignments and the term project should be submitted before the established deadlines. Each deadline is set to provide you

with enough flexibility to accommodate possible contingencies. Therefore, late submissions are not accepted regardless of the reason; makeups for missed assignments are not arranged.

A maximum of three excused absences in class (beyond excused absence on the mid-term quiz) is accepted. Loss of the opportunity for class participation during excused absences may be only partially made up for by submitting a written response to the discussion questions of the day. A maximum of one unexcused absence (beyond unexcused absence on the mid-term quiz) is accepted. There is no opportunity to make up missed class participation during unexcused absences. Absences in excess of the established maximum numbers, as well as tardiness, will adversely affect class participation marks.

You will receive intermediary feedback on your performance in the class at several points during the semester. Around the midpoint of the semester, I will inform you of your relative standing in the class in terms of class participation. Additionally, you will receive grades on your homework assignments and mid-term quiz within two weeks after the deadline/scheduled time for those assignments. Grades for the group project presentation and paper and my feedback on your submissions will be released on the day of announcement of the ultimate course grade.

Guidelines for group project

The project is intended to give you the opportunity to apply course materials to a context that is most interesting and relevant to you. Two main choices you need to make are (1) the firm(s) to be analyzed and (2) a strategy topic you want to investigate with the selected firm(s). The topic should be well-researched, based on an extensive review of public information such as articles, reports, and specialized databases (*e.g.*, SDC or COMPUSTAT). You are also encouraged to enrich your project by reaching out firm(s) being studied and conducting interviews.

Some past projects are as follows:

- Bank of America's strategic acquisitions
- Anheuser Busch-InBev merger
- Comcast-NBC Universal merger
- BASF's acquisition of Ciba
- BMS's evolving acquisition strategy: Pre- and post-string of pearls strategy
- Hertz at a strategic crossroads
- Disney's acquisition of Pixar in 2006
- LATAM Airlines Group: The LAN-TAM merger
- Verizon's acquisition of Alltel
- Nomura's acquisition of Lehman Brothers
- The Cola war takes to the field
- Amazon-Zappos acquisition
- Hypothetical merger between Pearson and Kaplan
- Sony Ericsson joint venture
- Consolidation in the oil & gas industry: From mega-mergers onwards

A good project will:

- clearly and logically apply the course material to the investigated topic;
- present a thorough quantitative and/or qualitative analysis of the topic;
- draw implications and suggest recommendations for managerial practice; and
- be efficiently written — your paper (including title page, appendices, tables, and references) should not be longer than 25 double-spaced pages.

The project should be worked on in groups of four to six students. You should join a group in Canvas by 5pm on January 24. Students, who do not join a group by that time, will be arbitrarily allocated to groups. During class time on either March 4 or March 6, I will meet with each group to discuss the project proposal. The 15-minute meeting should be scheduled in advance on the dedicated Canvas sign-up sheet. Please prepare a one page project outline naming the firm(s), the explored topic, data sources, analytical methods, and progress to date.

Although not required, you are encouraged to submit a draft of your project via Canvas by 5pm on March 21. The draft should contain sufficient detail to enable review. Groups submitting drafts before the deadline will receive feedback and be able to improve their papers before the final submission. Late draft submissions are not reviewed. The final presentation of your project will take place during one of the designated classes between April 17 and April 24. You should schedule the date and the time for your presentation in advance on the dedicated Canvas sign-up sheet. Please submit slides for your presentation via Canvas by 9am of the day before your presentation. The final paper is due by 5pm on April 30, to be uploaded on Canvas.

Class schedule

I. PREVIEWS

1/16 Session 1: Course overview

II. SOURCES OF CORPORATE VALUE

1/21 Session 2: Firm resources and corporate strategy

Collis DJ, Montgomery CA. 1998. Creating corporate advantage. *Harvard Business Review* **May–June**: 70–83.

1/23 Session 3: Commitment versus flexibility. Real options

Ghemawat P, del Sol P. 1998. Commitment *versus* flexibility? *California Management Review* **40**(4): 26–42.

Triantis A, Borison A. 2001. Real options: State of the practice. *Journal of Applied Corporate Finance* **14**(2): 8–24.

In-class exercise: valuation of real options.

Individual homework assignment #1: valuation of real options.

Complete team sign-up by 5:00pm on 1/24 via Canvas!

1/28 Session 4: Economies of scope — synergy

Case: “Polyface: The farm of many faces” (Harvard Business School, case #9–611–001).

In-class exercise: estimation of knowledge relatedness between two industries.

Individual homework assignment #2: estimation of knowledge relatedness.

1/30 Session 5: Economies of scope — resource redeployability

Penrose ET. 1960. The growth of the firm — a case study: The Hercules Powder Company.” *Business History Review* **34**(1): 1–23.

In-class exercise: estimation of synergy and redeployability.

Individual homework assignment #3: estimation of synergy and redeployability.

2/4 Session 6: Implications of economies of scope for corporate scope

Homework assignment #1 is due before the class. Please submit via Canvas.

Khanna T, Palepu K. 1997. Why focused strategies may be wrong for emerging markets. *Harvard Business Review* **July–August**: 3–10.

In-class exercise: estimation of human resource relatedness between two industries.

Individual homework assignment #4: estimation of human resource relatedness.

2/6 Session 7: Specifics of economies in vertical integration

Homework assignment #2 is due before the class. Please submit via Canvas.

Williamson OE. 1991. Strategizing, economizing, and economic organization. *Strategic Management Journal* **12**(Winter Special Issue): 75–94.

Case: “Birds Eye and the U.K. frozen food industry (A)” (Harvard Business school, case #9–792–074) and “Birds Eye and the U.K. frozen food industry (B)” (Harvard Business school, case #9–792–078).

2/11 Session 8: Challenges of valuation of corporate resources

Homework assignment #3 is due before the class. Please submit via Canvas.

Lev B. 2004. Sharpening the intangibles edge. *Harvard Business Review* **June**: 1–8.

In-class exercise: asymmetric valuation of tangible resources.

III. CORPORATE STRUCTURE

2/13 Session 9: Corporate strategy and corporate structure

Homework assignment #4 is due before the class. Please submit via Canvas.

Chandler AD. 1962. *Chapters in the History of the American Industrial Enterprise*.
Chapter 2: pp. 52–113.

Rivkin JW, Siggelkow N. 2006. Organizing to strategize in the face of interactions:
preventing premature lock-in. *Long Range Planning* **39**(6): 591–614.

In-class exercise: organizational design.

2/18 Session 10: Open-book, in-class quiz on parts I, II, and III of the course

IV. MODES OF CORPORATE DEVELOPMENT

2/20 Session 11: Selecting corporate development strategies

Chesbrough HW, Teece DJ. 2002. Organizing for innovation: When is virtual virtuous?
Harvard Business Review **August**: 1–11.

Dyer JH, Kale P, Singh H. 2004. When to ally and when to acquire. *Harvard Business
Review* **July–August**: 1–11.

Case: “Monsanto’s march into biotechnology (A)” (Harvard Business School, case #9–
690–009).

2/25 Session 12: Managing strategic alliances

Dyer JH, Kale P, Singh H. 2001. How to make strategic alliances work. *MIT Sloan
Management Review* **Summer**: 37–43.

Dyer JH, Singh H. 1998. The relational view: Cooperative strategy and sources of
interorganizational competitive advantage. *Academy of Management Review* **23**(4):
660–679.

Case: “Lipitor: At the heart of Warner–Lambert” (University of Michigan Business
School).

2/27 Session 13: Managing alliance networks

Gomes–Casseres B. 2003. Constellation strategy: Managing alliance groups. *Ivey Business Journal* **May–June**: 1–6.

Iansity M, Levien R. 2004. Strategy as ecology. *Harvard Business Review* **March**: 1–11.

Andal–Ancion A, Yip G. 2005. Smarter ways to do business with the competition. *European Business Forum* **21**: 32–36.

Korea Times. 2005. Star Alliance seeks integration. **3 June**.

The Nation (Thailand). 2005. Star Alliance Cuts Costs to Stay Ahead. **14 June**.

Case: “Star Alliance, 2000” (Brandeis University International Business School).

3/4 Project discussion meetings: schedule appointment and bring outline (no class)

3/6 Project discussion meetings: schedule appointment and bring outline (no class)

3/11 Spring Break (no class)

3/13 Spring Break (no class)

3/18 Session 14: Corporate venturing

Chesbrough HW. 2002. Making sense of corporate venture capital. *Harvard Business Review* **March**: 4–11.

Case: “Intel Capital: The Berkeley Networks Investment” (Harvard Business School, case #9–600–069).

3/20 Session 15: Growing through acquisitions

Chaudhuri S, Tabrizi B. 1999. Capturing the real value in high–tech acquisitions. *Harvard Business Review* **September–October**: 123–130.

Case: “Cisco’s Acquisition Strategy (1993 to 2000): Value growth through buying early–stage companies (A)” (Wharton School).

Paper draft is due by 5:00pm on 3/21. Please submit via Canvas.

3/25 Session 16: Divestitures

Dranikoff L, Koller T, Schneider A. 2002. Divestiture: Strategy’s missing link. *Harvard Business Review* **May**: 3–11.

Case: “Esmark, Inc. (A)” (Harvard Business School, case #9–283–013).

V. ACQUISITION SCREENING AND DEAL-MAKING

3/27 Session 17: Assessing resource requirements

Case: “PepsiCo’s restaurants” (Harvard Business school, case #9-794-078).

Case: “PepsiCo: A view from the corporate office” (Harvard Business school, case #9-964-078).

4/1 Session 18: Performing due diligence

Cullinan G, Le Roux J-M, Weddigen RF. 2004. To diversify or not to diversify. *Harvard Business Review* **April**: 3-11.

Case: “Fleet/Norstar financial group: Banking on BNE” (Harvard Business School, case #9-193-005).

4/3 Session 19: Conducting valuation and negotiation

Eccles R, Lanes KL, Wilson TC. 1999. Are you paying too much for that acquisition? *Harvard Business Review* **July-August**: 136-146.

Mansour N, Tauber A. 1998. *Valuation Techniques*. Stanford University Graduate School of Business.

Rappaport A, Sirower ML. 1999. Stock or cash? The trade-offs for buyers and sellers in Mergers and Acquisitions. *Harvard Business Review* **November-December**: 147-158.

Aiello RJ, Watkins MD. 2000. The fine art of friendly acquisition. *Harvard Business Review* **November-December**: 101-107.

Case: “Cerent Corporation” (Stanford University Graduate School of Business).

VI. POST-MERGER INTEGRATION

4/8 Session 20: Integration planning

Chaudhuri S, Iansity M, Tabrizi B. 2005. *Buying innovation: Managing technology-based acquisitions*.

Marks ML, Mirvis PH. 2001. Making mergers and acquisitions work: Strategic and psychological preparation. *Academy of Management Executive* **15**(2): 80-94.

Case: “HP and Compaq Combined: In Search of Scale and Scope” (Stanford University Graduate School of Business).

4/10 Session 21: Determining integration strategies

Haspeslagh PC, Jemison DB. 1994. Acquisition integration: Creating the atmosphere for value creation process. In *Krogh GV, Sinatra A, Singh H. The Management of Corporate Acquisitions*. Palgrave Macmillan Limited, pp. 448–479.

Rifkin G. 1998. Post–merger integration: How IBM and Lotus work together. *Strategy + Business Third Quarter*(12): 1–14.

Chaudhuri S, Iansity M, Tabrizi B. 2005. *Buying innovation: Managing technology–based acquisitions*.

Bower JL. 2001. Not all M&As are alike — and that matters. *Harvard Business Review March*: 93–101.

Case: “Vermeer Technologies (D): Making transitions” (Harvard Business School, case #9–397–082).

Case: “Vermeer Technologies (E): New beginning” (Harvard Business School, case #9–397–085).

Case: “Vermeer Technologies (F): FrontPage 97” (Harvard Business School, case #9–397–110).

4/15 Session 22: Managing human resources and assimilating cultures

Chaudhuri S. 2005. Managing Human Resources to Capture Capabilities. In *Stahl G, Mendenhall M (eds.) Managing culture and human resources in mergers and acquisitions*. Stanford University Press, pp. 277–300.

Marks ML, Mirvis PH. 1997. Revisiting the merger syndrome: Dealing with stress. *Mergers & Acquisitions May–June*: 21–27.

Buono AF, Bowditch JL. 2003. *The human side of mergers and acquisitions: managing collisions between people, cultures, and organizations*. Chapter 6: pp. 134–163.

Case: “Forming a financial services goliath: The Morgan Stanley — Dean, Witter, and Discover, Co. merger” (Wharton School).

Please submit your presentation via Canvas by 9am of the day before your presentation.

4/17 Session 23: Group presentation (1/3)

4/22 Session 24: Group presentation (2/3)

4/24 Session 25: Group presentation (3/3)

4/29 Session 26: Wrap–up

Final paper is due by 5:00pm on 4/30. Please submit via Canvas.