

UNIVERSITY OF PENNSYLVANIA
The Wharton School

MGMT 721: Corporate Development, Mergers and Acquisitions
Fall 2015

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Course Description

Corporations worldwide are fundamentally changing their processes and structures to cope with and take advantage of new opportunities as product and factor markets globalize, technology advances rapidly, and competition intensifies. We are witnessing the emergence of the distributed global organization that leverages both internal and external capabilities in real time, blurring the traditional boundaries of the firm and creating virtual enterprises. In addition, acquisitions and alliances have greatly increased in frequency and firms and industries reconfigure in response to rapid change.

This course explores the various modes of corporate development employed by managers to drive growth and change, including alliances and mergers and acquisitions. The course will address analytical processes often employed in corporate development decisions and will address areas such as acquisition strategy, choice between acquisitions and alliances, due diligence and post-merger integration. The objectives of the course are (1) to give you a set of tools to facilitate the selection of an appropriate strategy for corporate development, (2) to provide insight into the key success factors in creating and managing interfirm alliances and acquisitions, and (3) to provide a comprehensive framework for managing corporate growth.

The emphasis is on strategic and operational aspects of these transactions, rather than financial considerations. While we deal with a variety of industries, a number of cases are from technology-based firms. This is not only due to the recent prevalence of these transactions in technology based industries, but also because the fast pace in these industries can help generate insights applicable to many other settings.

Pedagogy and Evaluation

This course is taught through a combination of readings, case discussions, lectures, simulated experiences and field projects. The readings are a mix of theoretical, conceptual and empirical articles. The intent is to provide multiple perspectives on the phenomena we address in the course.

Evaluation is based on a team project, individual case write-ups and class participation in the following distribution:

Project draft	20%
Project presentation	10%
Final project paper	35%
Individual case writeups	15%
Class participation	20%

The project will be done in groups of four. The groups should be formed early in the semester. (Detailed guidelines for the project can be found in the Appendix.)

Course Materials: on Study.Net / Canvas

Class Participation and Individual Case Writeups

Since class participation is a crucial component of not only the evaluation but also the learning in the course, it is expected that you are well-prepared for each session. To give you a structured way of doing so, you are asked to post on Canvas a maximum one-page, bullet-point reflection on the discussion questions of the day by the beginning of the respective class. This exercise serves to help you get thinking about the main issues, so we can start the conversation at a level that allows us to get the most out of each discussion. In that spirit, the write-up is intended less for our reading, but more for you to collect your thoughts as well as track your thinking pre- and post-discussion and over the evolution of the course.

At the beginning of each class, we will ask one person to open the discussion. In general, we will not hesitate to cold call on quiet individuals! Note that unexcused absences and tardiness will adversely affect class participation marks.

CLASS SCHEDULE

Session 1: August 28, 2015.

CORPORATE DEVELOPMENT

(a) Course Introduction

Issues: How do firms create advantage as they extend their boundaries?
How do firms build competitive advantage?

Read: What is Strategy?
Strategy as Ecology

Examine how firms have used inorganic growth strategies in your experience – either on their own or in conjunction with other organizations. Why have they leveraged approaches such as alliance or outsourcing partnerships, networks or ecosystems, minority investments, and acquisitions to compete? What are some opportunities for participants, and what are some risks?

(b) Focus: Using alliances and acquisitions as modes of growth

Case: Lipitor: At the Heart of Warner-Lambert (*Michigan*)

Read: When to Ally and When to Acquire
How to Make Strategic Alliances Work
The Relational View: Cooperative Strategy and Interfirm Competitive Advantage (AMR)

Discussion Questions

1. What factors drove the creation of the joint venture in 1996? View the alliance from each partner's point of view.
2. What factors explained the acquisition of Warner Lambert by Pfizer? Assess the acquisition from the points of view the various parties involved.
3. Does this sequence of moves make strategic sense for Pfizer? For Warner Lambert?

(c) Key Issue: Managing Alliance Networks

Case: Star Alliance 2000 (*Brandeis*)

Smarter Ways To Do Business With Competition (*European Business Forum*)
Star Alliance Integration (*Korea Times*)
Star Alliance Cuts Costs to Stay Ahead (*The Nation*)

Read: Constellation Strategy

Discussion Questions:

1. Why was the Star Alliance formed?
2. What factors affect the sustainability of the alliance and how can they be managed?

Session 2: August 29, 2015.

(a) Key Issue: Outsourcing – moving from peripheral to more significant activities

Cases:

R&D Services at Wipro Corporation: Outsourcing Innovation? (*focus on Motorola example*)

Outsourcing with a Twist

Boeing's Global Strategy Takes Off

Discussion Questions:

1. What are the different types of functions Motorola, Bharti, and Boeing have outsourced to their various vendors and suppliers? How have the relationships evolved?
2. What are the potential benefits and risks for the companies in outsourcing such activities? How do these differ as tasks move from peripheral services to increasingly core functions?
3. How should the management, in terms of contractual structure and organizational approach, be modified for outsourced core activities as compared to peripheral ones? To what extent can the offshoring practices of the Global Delivery Model be transferred? What are some of the strategic and organizational shifts firms will have to make to be successful?

(b) Broader applications

What are the ways in which bilateral or multilateral partnerships enhance value creation? What are some of the impediments to creating value? How can governance be managed more effectively for networks and ecosystems? Think about your own industry as a source of examples.

Session 3: September 25, 2015.

(a) Focus: Corporate Venturing

Case: Intel Capital: The Berkeley Networks Investment

Read:

Meeting the challenge of disruptive change

Making Sense of Corporate Venture Capital

Managing the internal corporate venturing process (*optional*)

Discussion Questions:

1. Why did Intel Capital invest in Berkeley Networks? Why did Berkeley Networks invite investment?
2. What is Intel learning from investment in Berkeley Networks? Vice versa?
3. If you are an entrepreneur, would you like Intel to invest in your startup?

(b) Focus: Growing Through Multiple Acquisitions

Case: Cisco's Acquisition Strategy (1993 to 2000): Value Growth... (*Wharton*)

Readings:

Capturing the Real Value in High-Tech Acquisitions (*HBR*)

The Influence of Organizational Acquisition Experience... (*ASQ*) (*Skim*)

Discussion Questions:

Examine Cisco's growth-through-acquisitions strategy.

1. What are the key elements of this strategy?
2. To what extent are they internally consistent?
3. How do they create value for Cisco Inc.?

PROJECT OUTLINES DUE TODAY

Session 4: September 26, 2015.

TRANSACTIONAL ASPECTS OF CORPORATE ACQUISITIONS

(a) Key Issue: Due diligence

Case: Fleet/Norstar Financial Group: Banking on BNE (**just skim**)

Read: When to Walk Away from a Deal

Discussion Questions:

- (1) As you examine the steps involved in negotiation and financing, how does Fleet retain key elements of its strategy amongst all the hectic action?
- (2) Evaluate Fleet's approach to the acquisition of BNE in light of possible alternatives.

(b) Key Issue: Valuation of the Corporation

Case: Cerent Corporation (**just skim**)

Read: (**readings 2 and 3 below are optional**)

1. Are You Paying Too Much for That Acquisition?
2. Stock or Cash: The Tradeoffs for Buyers and Sellers in M&As
3. The Fine Art of Friendly Acquisitions

Discussion Questions:

1. What is your assessment of Cisco's current valuation of Cerent? What are the main factors in determining the latter's value?
2. How well have Cisco and Cerent conducted the negotiation process thus far, given their respective interests? What should be the major considerations and positions for each side in the upcoming discussions? How much should Cisco be willing to offer? Should Cerent let itself be acquired or pursue the IPO?

(c) Key Issue: How Competitive Bidding Influences Returns from Acquisitions

Cases: (**readings 4 to 6 are optional; 1,2,3 are very short**)

1. The Auction That Wouldn't End (*Deal Focus*)
2. \$41 Billion Offer by Cingular Wins AT&T Wireless (*NYTimes*)
3. How the Cingular Deal Helps Verizon (*Business Week*)
4. Chevron Completes Unocal Deal (*San Francisco Chronicle*)
5. Whirlpool Warding Off Rivals (*The Deal*)
6. Haier Retreats (*The Deal*)

Reading: Managerial Overcommitment in Corporate Acquisition Processes (**skim**)

Due Diligence Failure as a Signal Detection Problem (**optional**)

Discussion Questions:

1. What are the lessons we can draw from these caselets about hazards in acquisition decision-making? From the target's point of view? The bidder's point of view? The boards' point of view?
2. What sorts of preparation, decision guidelines, and interventions are necessary to avoid some of these problems?

Session 5: October 23, 2015.

MANAGING CORPORATE ACQUISITIONS

Key Issue: Identifying the dimensions of the post-acquisition management problem.

(a) Case: Kraft General Foods: the Merger

Read: Acquisition Integration: Creating the Atmosphere for Value Creation

Discussion Questions:

- (1) How can the merger be managed to have the best chance of achieving success?
- (2) What does Kraft contribute to General Foods?
- (3) What should KGF do next?

Additional Discussion Questions:

1. What strategies are adopted to ensure that value anticipated in the pre-acquisition analysis is actually realized in the post-acquisition process?
2. Can post-acquisition management be a source of competitive advantage? If so, under what conditions?

Key Issue: Post-Acquisition Management

(b) Case: DaimlerChrysler Merger: The Quest to Create “One Company”

(Babson)

Read: Making M&As Work: Strategic and Psychological Preparation
Managing Human Resources to Capture Capabilities

Discussion Questions:

1. What was the stated rationale for the merger?
2. What were the red flags that indicated that this would be a very difficult transaction?
3. How could the situation have been handled differently?

Session 6: November 6, 2015.

Key Issue: Post-merger integration of acquisitions to buy capabilities

(a) Case: Mercer Management Consulting (A)

(b) Case: Post Merger Integration: How IBM and Lotus Work Together

Discussion Questions:

1. In examining the origins of the deal, what factors increased the risk that post-acquisition would be complex and results would be difficult to achieve?
2. How did IBM mitigate that risk?

The article mentions generalizable insights into post acquisition management.

Do you buy into them? Why, or why not?

(c) Case: Vermeer technologies Cases D, E, F.

(Cases A, B, and C are background material describing the formation of the startup – extremely interesting, I recommend you read it. Focus on D, E, and F for the case discussion)

Discussion Questions:

1. How was Vermeer integrated into Microsoft?
2. From the point of view of an engineer in Vermeer, what changed? What remained the same? Why?

PROJECT DRAFTS DUE TODAY

Session 7: November 7, 2015.

Focus: Corporate Divestiture

Case: American Can

Question: What can we learn from the dilemma faced by management of American Can? When does strategic divestiture make sense?

Session 8: November 7, 2015.

Focus: Key success factors in managing alliances.

- (a) Case: Xerox and Fuji Xerox (HBS case)

Discussion Questions:

- (1) What were the explicit and implicit understandings at the time of formation of the Xerox – Fuji-Xerox joint venture?
- (2) How did the events of the “lost decade” affect (a) the durability of the joint venture, and (b) the benefits and costs of the joint venture to each side?
- (3) At the end of the case, how should the US and Japanese side view the challenges they are facing?
- (4) Compare and contrast Philips with Xerox on alliance capability

- (b) Case: Philips: Creating Alliance Capabilities (Wharton)

Also read:

- (1) How to Make Strategic Alliances Work?
- (2) When is Virtual Virtuous?

Questions:

1. What is your assessment of the process used to create alliance capabilities at Philips?
2. What are some of the future challenges they will need to manage?

Session 9: November 20, 2015.

(a) *Focus: Global M&A and Alliances*

(a) Case: Nissan's U-Turn (*INSEAD*)

Questions:

1. How did Carlos Ghosn diagnose the situation in Nissan and develop an approach? What is your opinion of his process of initial discovery in Nissan?
2. How did Carlos develop an implementable strategy? What elements of the architecture he put in place were critical? What are the pros and cons of the approach he used?
3. Comment on resistance and cultural issues in the process of implementation. How do the processes and events contrast with situations you are aware of?

(b) Cases: Lenovo Evolves with Its IBM PC Unit in Tow (*NYT*)

Tata Motors: Acquisition of Jaguar and Land Rover in 2008 (*Wharton*)

Readings: What Have We Learned About Emerging-Market MNEs? (*Book Ch.*)

Don't Integrate Your Acquisitions, Partner with Them (*HBR*)

(b) *Course Summary and Review*

Re-Cap Session, Key Issue: How is value created via acquisition and alliance?

Questions:

(Re-)read the articles below:

- (1) Strategy as Ecology
- (2) When to Ally and When to Acquire
- (3) How to Make Strategic Alliances Work
- (4) Not All M&A's Are Alike – And That Matters

Discussion Question: Referring to the above articles and cases discussed thus far, specify clearly how acquisitions can create value beyond the premiums paid to gain control. Also identify the key success factors in managing alliances. Please come to class with one slide indicating how you integrate the ideas in your mind.

Session 10: November 21, 2015.

Project Presentations

FINAL PROJECT PAPERS DUE ON DECEMBER 6, 2015

Appendix: Guidelines for Project Work

The objective of the project is to give course participants an opportunity to apply their learning from this course in a context that is of most interest to them. In my experience, students have commented that the project has proven to be of great learning value.

A good project should have the following features:

1. A good project will have a clear statement of the objective of the project. Examples: (1) an in-depth examination of the acquisitions made by a selected firm, with some general implications, (2) analysis of industry-level competitive dynamics leading up to widespread consolidation at the firm level, (3) a comparative analysis of modes of corporate development, such as acquisition, internal development or alliances, or (4) critical evaluation of new developments in the area of corporate growth, such as the use of minority equity relationships. In no case should the objective merely be to report on a successful corporate development strategy; analysis, and drawing out of implications for practice (along with a delineation of the boundary conditions for drawing such implications) is paramount. Also bear in mind that this is a strategy course; we are interested in the implications for corporate performance.

2. A good project will show linkages to important themes in the course. As the project carries the maximum weight for evaluation, it will be the most important means to assess the understanding of course material, hence efforts to explicitly provide evidence of this understanding will be rewarded.

3. The phenomenon in question (M&A in an industry, the alliances of a particular firm, corporate refocusing, internal development etc.) should be well researched. A thorough review of public sources of information is expected; the internet, as well as specialized databases such as Forrester's or COMPUSTAT at Wharton should prove useful starting points. **Make use of the reference library services at Lippincott – they are very good.** Attempts to gain access directly to the company/s being studied are strongly encouraged. To the extent possible, we will support your efforts to gain access to companies by providing letters and material in support of your research efforts. Sources of data including interviews and press articles should be properly cited.

4. Analytic methods for the data will depend on the kind of data collected for the project. Whether the analysis is qualitative or quantitative, clarity and rigor in the analysis is very important. A good project will also devote some introspection to the quality of the data obtained, and any limitations that it may place on interpreting the analysis.

5. A good project will attempt to draw implications for managerial practice from the analyses, while at the same time staying sensitive to the limitations of data and method. In other words the project will answer "What can we learn from this analysis" as well as "When are these lessons most applicable? Least applicable?"

Examples of earlier projects include:

- The Role of Acquisitions in the Growth of Microsoft Corporation
- Strategic Alliances in the Biotechnology Industry
- Making Sense of Oracle's Acquisition Program
- Emergence of a Consumer Marketing Giant: P&G's Acquisition of Gillette
- The Role of Acquisitions and Alliances in Transforming Verizon
- Lenovo's Acquisition of IBM's PC Division
- Business Process Outsourcing: A Study

Students will work in groups of up to **four** on the project. Please make sure that you take your project partners' course schedules into consideration before forming your teams, as you will need to work together extensively. The project has several stages: outline due in session 3, draft due in session 6, and final paper due after session 10.

Guidelines on the components of the projects:

Outline: Due in **session 3**, this should be one page long and have four sections: problem definition, research design, analysis and potential conclusions. In the problem definition section, please state the problem you are investigating as crisply as possible. In the research design section, please list your key variables of interest, the sources of data, both primary and secondary, and the time line of the study. The analysis should include the frameworks and analytic methods you will bring to bear on the project. The potential conclusions section lists the types of conclusions you might draw from this analysis.

Draft: Due in **session 6**, the draft should be in presentation form, but should have sufficient detail for evaluation and reading as a coherent document (as is common in consulting and investment banking circles). Here, you can elaborate on the problem definition, research design, analysis and concluding sections. Of course, with a few weeks more to go, you will have time to sharpen all parts of the paper. The draft is designed to be directionally where the paper is headed. The more substantive the draft, the more effective the feedback will be.

Final Paper: This is due after **session 10**, and should be a maximum of fifteen pages long double spaced, excluding exhibits. Ask yourselves if you have pushed the data fully in terms of possible insights from it. Focus on how the theories and frameworks of the class relate to the phenomenon you are investigating. How do they apply, and if they do not apply well, what are the possible implications or future innovations needed? What are the action implications of this work? If you were to make real decisions based on this analysis, what would they be?