PART
One

Cross-Border Strategy and Deal Planning

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CHAPTER 1

Cross-Border Deal Evolution and Rationale

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CHAPTER LEARNING OBJECTIVES—IN THIS CHAPTER, YOU WILL LEARN:

- How cross-border deals have evolved over time and what key lessons we can draw from such analysis.
- At the firm level, what the main strategic motives are for cross-border deals and to what extent microeconomic factors influence the success of a deal.
- More generally, what the main factors influencing cross-border deals are, from global to micro levels, and how they can be correlated with cross-border deal success.

CHAPTER SUMMARY

Mergers and acquisitions (M&A) transactions in general, and decisions to engage in a deal, are connected to a wide number of internal and external factors that have been thoroughly analyzed over the past century. Even if the specific analysis of cross-border deals is more recent and therefore limited, any decision maker should have a view of the main economic forces at stake and how they might influence the M&A and PMI outcome. Building on this knowledge brings as well a better view of the potential determinants of any cross-border deal, and how these determinants may be part of the due diligence process. This chapter aims to provide this general background information, with a view of potentially improving the quality of the decision-making process and the end result of the transaction.

THE EVOLUTION OF M&A AND CROSS-BORDER DEALS

To understand the cross-border mergers and acquisitions (M&A) phenomenon, one has to look back to get some perspectives. The M&A market is historically a recent phenomenon, which has been linked to a certain form of economic development based in particular on fungible shares easily negotiable on markets.

The M&A market's evolution shows a globalization of this tool as a leading business transformation mechanism. However, this mechanism of ownership change and corporate value transformation has ups and downs. And there are still some major differences between countries in terms of how cross-border M&As are accepted and used.

Moreover, the analysis of these different M&A waves over a long period of time has yielded some details about the rationale for such transactions. A wide number of parameters have been connected to cross-border deals. We try here to provide an overview of the types of factors at play (both internally in the firm and externally), with the view that most of these factors play at different geographical levels (local, national, and global).

It is also important to note that cross-border deals are far more complex to achieve than purely domestic ones. The necessity to analyze business conditions abroad and gaps with domestic business conditions is a challenging intellectual process one should not underestimate.

The M&A market has been expanding globally to new territories and new sectors for more than a century. The number of countries in the world that are aware of such transactions is increasing, and the number of sectors concerned by cross-border deals is increasing as well.

However, this general expansion and commoditization of international M&A is far from linear; the market has had upward and downward movements, much like the financial stock market.

The M&A and cross-border market has its ups and downs, and executives must understand where they stand in terms of market situation to surf on the right waves. The timing aspect of a deal is an important element of success in order to pay at the right level of multiple and benefit from positive economic conditions to quickly finance the investment.

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M&A: A Resilient Market[1]

The global M&A market is quite volatile. The year 2014 was a renaissance for the M&A market, and this growth has continued in 2015, surpassing the 10% expected growth.[2] This upswing comes after a prolonged financial and economic global crisis that began in the United States in 2007 with the mortgage crisis. This financial accident caused increased budget deficits all over

the world (United States, United Kingdom, Spain, Portugal, Italy, France, and so on) when nations attempted to cope with the economic downturn and increased unemployment. This, in turn, generated more trading chaos, this time in sovereign debt and public and private bond rates, jeopardizing, in particular, the most vulnerable countries (Greece, Spain, and Italy). To cope with this phenomenon, public austerity measures were taken to limit budget deficits (Europe). This eventually hit the global economy and caused five to seven years of gross domestic product (GDP) negative to low growth. And all of these problems have not been entirely solved yet.

In parallel, new conflicts have grown from local ones (Libya, Egypt, Sub-Saharan Africa, Syria, Yemen, Ukraine) into new global risks (jihadist terrorism, cyber-war, migrating populations). The BRICS (Brazil, Russia, India, China, South Africa) nations seem headed into an era of lower growth, and their role as the economic engine of the world appears weaker—with lower oil and gas prices (Russia) and growing local reactions against corrupt elites and social inequalities (China, Brazil): How will they fund their investments in infrastructure, education, and technologies? This high-level picture shows to what extent the connection of M&A and the general economic and geopolitical context is a complex one, based on a wide range of factors and not strictly connected to financial market optimism or GDP accelerated growth perspectives.

In an upward cycle, the global value of the M&A market increases far quicker than the underlying GDP. In 2014, the M&A market reached its highest level since 2007 with \$3.3t of announced deals in value. This climbed to \$4.7t in 2015, after two years at about a 40% annual growth rate. Actually completed deals are a bit below in terms of growth: +15% in 2014 and +25% in 2015 to reach \$2.5t. These growth rates are to be compared with global GDP growth of between 1% and 7% in the most important economies. There is no quicker way for a firm to reach critical size and competitiveness. Altice reflects this hypergrowth acquisitive strategy in the telecoms and cable sector, with four acquisitions achieved in 18 months: Suddenlink (\$9b of deal value) and Cablevision (\$15b) in the United States and Portugal Telecom (\$7b) and SFR (\$13b) in Europe—among other deals achieved by the group.

This M&A growth is based on an important but almost stable number of deals. There were 42,220 transactions announced worldwide in 2014, and 42,313 in 2015. This represents about 3,500 deals worldwide on a monthly basis compared to a low of 600–800 in the worst year (2009), or about 115 new deals every single day. This important number of deals has a direct impact on the entire M&A business: in a dynamic market, the number of commercial opportunities is high as well for investors, bankers,

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lawyers, accountants, and consultants. As a consequence, the number of players in the industry is high, as is the competition among them.

The average value of deals has grown more in 2015 than the number of deals. In each active M&A phase, it has been noted that the value of M&A deals (based on the firms' market capitalization) increases significantly.[3] In 2014, 95 deals closed with over $5b of value. In 2015, 71 announced deals have been over $10bn in value, the highest level ever. M&A players (banks, corporations, private equity firms) have been able to more easily fund such complex deals. Deal value is an important factor in terms of both profits for the M&A industry and technical innovation. Mega-mergers tend to be projects where the level of high complexity and the existence of important resources make it possible to make progress on methods. Service providers tend to learn and invest in mega-projects, and then leverage this experience on smaller projects. Logically, the more a firm or country experiments with mega-mergers, the more its teams or nationals innovate and benefit from a sort of comparative advantage.[4]

A Geographically Spreading Market

The international expansion of the M&A market is a major factor. All regions grew at a fast pace in 2014 (36%-56% year on year), except for the Middle East and Africa. In 2015, Europe was the least active region with only an 8% growth rate, while Japan and Asia-Pacific were the most active ones (+62%). This illustrates the pursuit of the globalization trend and the growing use of similar business strategies worldwide.

The Americas remain by far the most active M&A market worldwide. They accounted for 53% of the total value in 2015 ($2.5t of deals announced, $2.3t of which were in the United States). In the United States, large transformational deals in the health care, high-tech, and energy sectors have fueled the market. Buyers have been essentially strategic ones, benefiting from strong cash positions, high stock market levels, and low interest rates due to the "quantitative easing" monetary policy. In 2014, regulatory and tax aspects have also justified a number of "cash inversion" deals from European firms into the United States. About 50% of the deals have been equity based. The increasing role of activists has been a key element of change in 2014, although less so in 2015.

Europe at large is now the third-largest M&A market. It accounted, however, for only 36% of the value of the deals in the Americas in 2015, versus 50% in 2014. In terms of global market share, in 2015 Europe represented less than 20% of the global market ($907b). After having been the most active region in 2014 (+55% annual growth rate), the area has experienced a quasi-stagnation of 8% growth due mostly to the French downturn (–45%).

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In Europe, investments from Chinese and other Asian countries have been pushing the market up, as have intra-European consolidation deals. The main sectors involved were consumer staples, energy, industrials, and pharma. In 2014, it was pharma, industrials, luxury goods, and financial services. Low economic growth rates, uncertainties about the European evolution (potential withdrawal of the United Kingdom, failing euro due to the implementation of a QE policy, lasting questions about a potential "Grexit," and conflict in Ukraine), and growing geopolitical difficulties have limited the 2014 rebound.

Asia-Pacific including Japan is now more active than Europe. It represented 26% of the market in 2015 versus 22% in 2014 ($1,242b). The main sectors are industrials, high tech, and financials as opposed to consumer, retail, and leisure in 2014. Asian outbound activity is still focused on the United States and Europe, but is becoming more and more global.

Middle East and Africa are still marginal markets. These regions accounted only for less than 2% of the 2015 market value ($80b versus $65b in 2014). Despite getting more and more private equity and financial attention, M&A transactions have been decreasing there due to political uncertainty, ongoing stumbling oil prices, and slow structural reforms.

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Strong Lasting National Differences

The general M&A growth has virtuous consequences on future deals. As an M&A national market grows, it allows better access to competencies, a better circulation of information of the general public, better regulatory frameworks, and growing popular acceptance of M&A transactions as a managerial tool. Drilling into details, this also means better investor protection, better accounting standards, banking laws, financial and economic informational flows, corporate governance regulations, and compliance procedures, and increased market scrutiny by the financial press or activists. All these elements secure investment forecasts and multiply potential inward deals, even if valuation and transaction costs are a bit higher.

But in spite of the geographical expansion of M&A, there are still significant differences between countries. Deal-makers must pay attention to these differences, and not assume that what they see in their home country will be replicated in other contexts. This "principle of caution" will reduce considerably the causes of failure in a cross-border deal.

First and foremost, major differences exist between advanced and emerging countries. Country-specific differences are critical in explaining why funds go preferably to more advanced economies (the Lucas paradox[5]). These differences may cover a wide array of intertwined aspects: laws, national economic performance, as well as institutional quality.[6] Getting into more details, factors such as political instability, statewide corruption,

weak or unimplemented laws, and inefficient administrations tend to limit transactions. Inbound investments are as a consequence higher in more advanced economies, where paradoxically the costs related to regulation, labor, or other institutional elements are higher.

But there are also significant gaps between advanced economies. Advanced economies, with comparable levels of institutional quality and high standards of administrative work, do vary a lot as to their M&A markets. This has to do with other more subtle differences, such as how banks relate to companies, how access to privileged information is channeled through, how tax, human resources (HR), or other rules monitor accepted business behaviors and corporate decisions, how the institutions and jurisprudence support or limit corporate growth strategies, how education and society design national cultural patterns, and so on. As a result of this bundling of multiple factors, whether they are solid facts or just perceptions, M&As do not play the same role in advanced economies.

Table 1.1 provides a simplified view of such national differences in terms of M&A activity. Based on 2014 figures, we can read this information in two different ways.

- The *M&A value/GDP* ratio shows to what extent the national economy is exposed to M&A transactions, and hence to what extent M&A is significant in terms of boosting economic change and business reorganizations.
- The reverse, the ratio *GDP/M&A value* ("Avg. control life span"), provides a measure of the time spent in a standard national firm between major control changes. A low ratio means a quick pace of change with a broad set of impacts on governance rules, job reallocations, geographical delocalization, investment priorities, and close-down of a number of sites. The more this ratio goes down, the more people and firms know about M&A consequences and tend to adjust their behaviors accordingly. A quick change in this ratio can also generate local resistance and difficulties.

We can distinguish four major types of national M&A markets. Based on these two ratios, we can distinguish countries according to their level of national M&A activity:

Type A—Balanced Markets. The main cluster is made of quite open economies (United Kingdom, France, Canada, Australia, South Korea). Deal values account for 5%–6% of the national GDP. Firms based locally have on average a capital control stability ratio ("control life span") of 15–20 years.

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Type B—Outbound Markets. A very different cluster is made up of Germany and Japan. Deals here represent only about 1%–2% of the GDP. The ownership life-cycle ratio is far longer at 50–100 years on average. This slow motion in capital mobility is due to the structure of the firms, their capacity to finance their growth domestically and abroad, and their solid and long-term links with their ecosystems. This is close to what has been called the "Rhenish capitalistic model," as opposed to the Anglo-Saxon one. It does not mean German or Japanese firms are not active on the M&A market—they do have more outbound deals.

Type C—Very Active Markets. The United States shows a very high level of M&A volume, with an 8.8% rate in 2014. The capital control life span is far shorter than in other countries despite the global size of the economy, at about 11 years. This data, however, has to be partly discounted due to phenomena like "cash inversion" deals, which do not really represent major changes in the strategy of the firms.

Type D—Transition Markets. China is an interesting illustration of transition markets, as it is more active than Germany or Japan. China may well be using M&A deals and changes of control to foster corporate transformation, increase productivity and production, and create national champions before getting into the international M&A market.

TABLE 1.1 M&A National Gaps

Country	Number of Deals (target)	Value of Deals ($ b)	Average Value of Deals ($ m)	GDP ($ b)	M&A Volume/ GDP	Average Control Life Span
United States	9,802	1,531	156	17,419	8.79%	11.4
China	4,520	390	86	10,380	3.76%	26.6
United Kingdom	2,423	177	73	2,945	6.01%	16.6
France	2,040	165	81	2,847	5.80%	17.3
Canada	1,670	111	66	1,789	6.20%	16.1
Australia	1,229	81	66	1,444	5.61%	17.8
Germany	1,516	73	48	3,860	1.89%	52.9
South Korea	1,095	65	59	1,417	4.59%	21.8
Japan	2,115	65	31	4,616	1.41%	71.0

Sources: Thomson Reuters, International Monetary Fund.

Long-Term Evolution: The Concept of M&A Waves

One major aspect of the M&A market is that it is a cyclical one. Historical research—mostly focusing on the U.S. market first—has shown the existence of cycles in M&A activity almost since the mid-nineteenth century. The existence of such a synchronicity of M&A deals has been confirmed by more recent research covering several countries.[7] This extensive research brings powerful insights about the determinants and the strategic motives of cross-border deals. Table 1.2 provides a synthesis of these waves.

From a business standpoint, what does this wave concept entail? We may draw here a number of ideas aimed at M&A and PMI professionals:

- Timing has a direct consequence on negotiation possibilities and pricing. In our own survey on cross-border integration,[8] the company share price/valuation was considered by a sample of 115 M&A professionals as both the most important deal driver and the most successfully delivered, above sales growth, cost reduction, customer retention, and several other categories in both aspects.
- Good timing is not always short term. M&A markets are not stable over time. Volumes and values may increase and decrease significantly due to a number of factors. Too often, deals are driven by chance or individual contacts between C-level executives rather than by economic or strategic forecasts. The impact of this is all the more important as complex deals may be suffering major delays—for example, it took three years between 2011 and 2014 for RHJ International to obtain agreement from the Federal Financial Supervisory Authority (BaFin; Germany) and close the acquisition of BHF-Bank from Deutsche Bank.[9] Firms should ensure a long-term tracking of the M&A market situation and potential impacts on their growth strategy.
- **The management of M&A resources should be less short-term oriented to optimize countercyclical situations.** In a cyclical market, the general availability of M&A resources at large is very variable. In low M&A markets, firms tend to reduce their internal skills and this may hinder their decisions. Banks may also limit their staff and tighten their lending conditions. Benefiting more easily from an increased mobility of skills and assets is possible in growing M&A markets. When a group has sufficient resources and triggers long-term business portfolio growth, it should invest in its M&A resources as in a normal recurring process (such as purchasing or research and development [R&D]). It is too often not the case, with several negative side effects (lack of anticipation

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of issues, increased risks, suboptimization of the due diligence process, and poor post-merger integration planning and delivery).

- **Firms must have a competitive intelligence process in place to alert on any potential major market disruption.** We have seen that the M&A waves are influenced by many factors, not just financial ones. Regulation, technology, geopolitics, and many other elements may change a competitive situation and boost opportunities or freeze initiatives. This must be discussed internally and regularly and viewed with a three-to-five-year perspective so that there is sufficient time ahead to plan and implement an M&A deal.
- **Stakeholder management techniques should be applied in the M&A field to get a consistent view of M&A market trends and changes.** We have seen that banks and M&A advisors are key in the pace and intensity of the wave. It is thus critical to manage the interfaces with them, so that the insights they provide can be optimized. For instance, making sure there is a systematic feedback of the formal or informal contacts with bankers or lawyers on the market situation to the M&A and corporate development team is useful.

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The Determinants of M&A Waves

Determinants versus strategic motives. It is useful to make a point on the difference between two types of elements supporting a deal. On the one hand, a firm may pursue specific strategic goals (i.e., economies of scale, access to new markets or skills). These goals will depend on its competitive position, its resources, and other factors that depend very much on the firm. On the other hand, at a statistical level, M&A deals appear to be quite well synchronized around cycles. The problem therefore is to understand why firms, pursuing very different strategic goals with different timing, may have an interest and an advantage in executing their deals according to a general cycle sequence, building on determinants that are located more at the country level or international level than at the firm level.

The concept of the M&A wave has been very productive in terms of identifying the determinants of these cycles. The historical analysis of these M&A waves has highlighted a wide range of M&A market drivers that evolve over time.[10] Figure 1.1 provides a synthetic view of the potential different types of drivers.

TABLE 1.2 U.S. M&A Waves

	1897–1904	1916–1929	1965–1969	1981–1989	1993–2000
Context	■ Post-1883 depression ■ Rail transport development	■ Post-WWI growth period ■ Car development, radio (advertisment) ■ Easy access to funding—increasing role of investment banking	■ Booming economy–weak role of investment bankers ■ Development of the MBA ■ Development of stock financing due to increasing PEs	■ Deregulation trend: airlines, drugs, and medical equipment ■ Financial innovation: new financing solutions (junk bonds) ■ Role of investment bankers/lawyers in aggressive deals—increasing fees (Drexel Burnham Lambert) ■ SEC position in favor of free market competition	■ Extension of deregulation: banking, insurance, telecoms, high tech ■ Internet ■ Increased equity funding ■ Increasing cross-border deals with the U.S.
End date	■ 1904 depression	■ 1929 financial crisis (Black Tuesday)	■ Vietnam War and 1973 oil crisis	■ 1990–1991 recession	■ 2001 Internet speculative bubble crash and the high corporate debt level
Number of transactions	■ 3,000	■ 4,600	■ 6,000	■ 23,000	■ 50,000
Impact	■ Increased concentration ■ Stricter anti-trust: Clayton Act (1914)	■ Celler-Kefauver Act (1950)	■ Tax Reform Act in 1969 against "paper gains" due to accounting mechanisms	■ Development of anti-takeover techniques (golden parachutes, poison pills)	■ First global M&A wave ■ Development of oligopolistic situations ■ Development of valuation techniques/due diligence

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	1897–1904	1916–1929	1965–1969	1981–1989	1993–2000
Goals	■ Economies of scale in production and distribution	■ Merging for oligopoly ■ Product extension, market extension	■ Growth and profitability ■ Functional optimization	■ Shareholder value	■ Globalization
Sectors impacted	■ Mining, manufacturing, banking	■ Metals, oil products, food products, chemicals, transport equipment		■ Oil and gas, drugs and medical equipment	■ Banking, telecoms
Type of deals	■ 78% horizontal integration ■ Large number of firms involved (75% over 5 firms) ■ Some hostile bids—first takeover battle in 1868 (Erie Railroad by Vanderbilt)		■ 80% conglomerate ■ Small deals	■ Mega-deals ■ Hostile mergers—"corporate raiders" ■ High debt leverage (LBOs/MBOs)	■ Large deals but no significant impact on concentration ■ More strategic deals—fewer sell-offs
Examples	■ US Steel/Carnegie Steel, Dupont, Standard Oil, General Electric, Eastman Kodak, American Tobacco	■ Conglomerates: Allied Chemical (GE, Solvay, Chemical) ■ IBM, General Motors, Union Carbide	■ ITT, Revlon	■ KKR–RJR Nabisco (USD25bn)	■ Daimler-Chrysler

Data from Patrick A. Gaughan, *Mergers, Acquisitions and Corporate Restructurings*, 2nd ed. (New York: John Wiley & Sons, 1999), 21–59.

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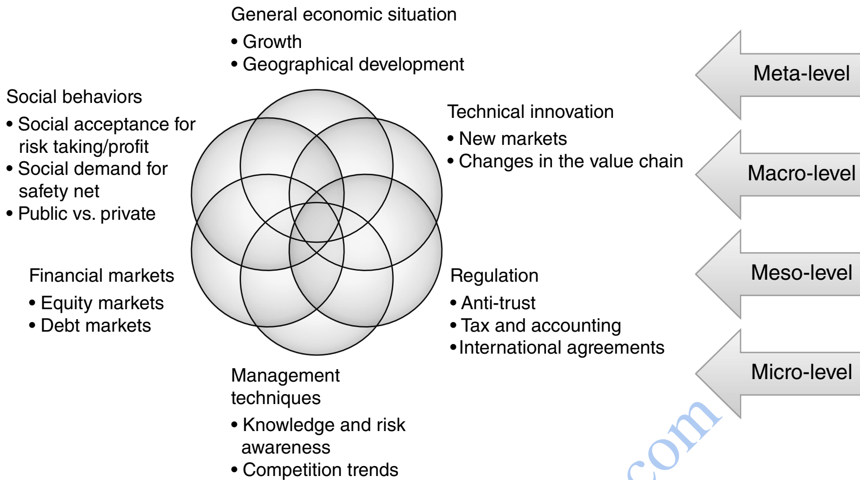

FIGURE 1.1 M&A Drivers

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Each of these driving factors may have different levels of influence. We can distinguish between four major levels of forces interacting with M&A and PMI developments:

1. At the global level ("meta-level"), global forces are at stake, such as the launching of a QE program in several countries helping banks to develop credit lending, or the international development of public austerity measures to cut budget deficits.
2. At the national level ("macro-level"), national changes have an influence (e.g., a new government elected, with a new economic program, or a new anti-trust regulation). Research has shown that cross-border deals increase globally about one year before national elections, to cope with potential domestic law or regulatory changes.[11]
3. At the industry level ("meso-level"), industry-related factors may also favor or jeopardize M&A deals (e.g., a drastic change in the pricing of specific raw materials, or the introduction of a new technical application).
4. At the firm level ("micro-level"), there are also corporate-related forces that resonate with the global trends above (e.g., a new strategy following the arrival of a new chief executive officer [CEO]).

Each of these M&A driving factors may be viewed as a decisive competitive advantage at the firm level.[12] The situation of the bidder vis-à-vis each driving force has wide-ranging consequences in terms of securing an M&A deal. For instance, a firm benefiting from a good credit rating score and a

low corporate bond rate has an edge over its competitors and may fund deals generating economies and further profits. To take another perspective, firms benefiting from a good headquarters (HQ) location may build on a fast access to information and skills, funnel their investments in a better way, and trigger more synergies. This is clearly what has happened in the past decade with the GAFA firms (Google, Amazon, Facebook, Apple). It is the job of corporate development to conduct such strategic analysis and business intelligence review in order to identify the most differentiating competitive factors and relate this information to the M&A strategy and plan.

Why should M&A strategy be directly connected to the anticipation of business disruptions? M&A waves tend to start with a major business disruption, that is, a phenomenon that has an impact on how executives can analyze and execute new M&A strategies. These disruptions may be of a different nature, but in the last few decades, technology (mass usage of PCs, Internet, mobile telecoms, connected objects) and regulatory or political changes have played a major role. This plays out at a global level, but also at the national level. Future trends, and potential global or local market disruptions, need therefore to be clearly identified and discussed within firms, with M&A-contingent strategies designed accordingly. Such disruptions are permanent if the perspective is global—countries need to reform past codes, to modernize their economy. Thus it should be considered as a normal part of the job of a CEO and of any executive to think about the next potential disruptions, not only to anticipate M&A deals but also to improve existing business. In reality, due to organizational inertia, management conformism, authoritarian management style, top-down myopia, management hubris, and other managerial mistakes, disruptions play into the Schumpeterian concept of inevitable economic destruction. To mitigate such risks, firms should pay particular attention to recruiting young people as well as strong independent personalities, proactively manage the creative potential of their staff, and maintain the anticonformist attitude of the start-ups that by definition bet on market disruptions.

If M&A waves build on business disruptions, deals need economic visibility to be rationalized and executed. M&A deals depend on positive economic anticipations: development of financial markets and new funding options, high stock valuations, increasing GDP growth rate and market demand, high level of corporate profits and in-excess cash, and so on. Such assumptions are key for buyers to secure the acquired assets. Volatile and uncertain markets increase the risk of actually delivering the stand-alone plan plus the synergies, and this in turn increases the related cost of capital and debt, as well as the need for efficiencies. Finding the right balance between business opportunism and deal rationalization is one of the most important success factors in the pre-deal phase.

M&A waves favor specific types of corporate strategies—not all of them. The historical analysis of M&A waves has shown that in each phase, firms have

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focused on specific high-level strategic goals. Three major axes of development have been identified—they are still very much applicable to current deal logic:

1. **Horizontal integration** and the consolidation of market shares. The corporate objective here is to benefit from excess profit due to improved negotiation power with clients or regulators (e.g., the case of AT&T in the early history of telecoms). Leading groups may emerge in this process ("national champions"), with sufficient resources and domestic margins to buy foreign competitors and grow abroad.
2. **Vertical integration** and control over the value chain. The development of production volumes increases the complexity of supply and logistics. This in turn forces firms to improve the reliability of the supplies. Insourcing part of the margins of the intermediates may also be profitable. This reintermediation strategy is, however, partly balanced by value-chain disintermediation strategic moves developed by growing specialized firms providing better costs and services ("core competencies"). The introduction of new distant quality control methods supported by better IT systems and methods regularly redefines the advantages and limits of outsourcing some aspects of the value chain.
3. **Product diversification** and the creation of conglomerates. Leading firms have very early focused on diminishing the volatility of cash flows and risks. The diversification of businesses enables them to benefit from different economic cycles and lessen the generation of cash (e.g., in the car industry with the acquisition of financial services assets). This strategy is regularly challenged by the need to focus resources to gain size.

Each M&A wave values specific funding strategies. M&A waves have shown varying funding preferences between cash, equity, and debt. This depends very much on the availability of innovative solutions, the risks induced, and the cost of funding to be paid. Any major change in such aspects has an impact on the potential deals. Low interest rates, as they are today, are in favor of M&A deals, as well as temporary high stock markets and the availability of cash for potential buyers. Chief financial officers must have a clear view of the potential options and market trends so that the M&A strategy may be more quickly supported by shareholders, bankers, or investment funds.

Each M&A wave may also favor some types of players against others. Buyers change over time with economic and regulatory conditions. Executive teams must have a proactive management of their potential stakeholders. To simplify, there are three major types of bidders, each with specific constraints and competitive edges:

1. *Strategic buyers* represent the bulk of the M&A markets. Their investment duration is linked to their strategy, but in principle they have no

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exit deadline. Strategic buyers build on their knowledge of their industry to pursue long-term industrial synergies, increase their market share, and gain economies of scale and scope through internal optimization of processes, skills, and assets.

2. The development of financial investment tools and resources has increased the role of *financial investors* in the global M&A market. They account now for about a third of the deal values. They focus more on finance organization and reporting mechanisms, general governance, and the follow-up of transformation plans. Their investment duration is between 3 and 10 years.
3. A new type of player ("activists") is emerging as a sort of extension of this form of capitalist view of the firm. Activists promote quicker and focused actions. Their actions may be related to financial profits but not only, as they may promote some specific views of strategic priorities (e.g., the case of BP in the United Kingdom, with activists having forced the group to make progress on its climate change strategy).

Last, firms must also take the view that the M&A wave will end. Historically, M&A waves have ended with political crisis or even wars. Thanks to this historical experience, such crises have recently been managed with fewer dramatic consequences, but they have nevertheless ended with significant financial crises of global impact (the Internet bubble blowup in 2001 and mortgage-based securities in 2007). Very often, the beginning of the next phase has been linked to the evolution of the regulatory aspects that had led to the previous crisis—a mechanism that is very close to trial-and-error. The latest example of such an iterative process is the U.S. regulatory change to limit "cash-inversion" deals in 2014.

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Cross-Border Deals and Evolution

Cross-border deals have been far less tracked and analyzed than M&A as a whole. Based on our own databases of research articles, we estimate that cross-border analysis represents only between 20% and 30% of the total number of publications. A 2015 comprehensive literature review[13] on determinants of cross-border mergers and acquisitions lists about 240 articles. Most publications have also focused on U.S. and Anglo-Saxon transactions: There is less research on the different European countries, and almost none on the transactions being done in emerging countries—inbound or outbound. This should progressively change both with the increasing internationalization of the M&A market, and the development of national education and research programs on finance and management.

Cross-border deals now represent a major and relatively stable segment of the M&A market. They accounted for 33% of the total M&A volume in

2015, against 37% in 2014 and 31% in 2013. They have represented $1.6t of value (+27% of growth year-on-year). This is the equivalent of the GDP of Mexico in 2014, the 15th richest economy in the world, or more than twice the GDP of Switzerland.

Cross-border deals have increased from 0.5% to about 2% of the worldwide GDP between 1980 and 2000.[14] In 2014, based on the previous figures, cross-border deals have accounted for about 1.7% of world GDP of 77.3t.[15] This figure represents what many economists now consider a "new normal" for world GDP growth. In other words, the cross-border M&A market represents about a year of GDP growth worldwide.

Major Specificities of Cross-Border Deals

Cross-border deals are more complex than domestic deals. The number of parameters to think about and anticipate at pre-deal level in an M&A deal is huge—and it is easy to understand that a cross-border deal increases that level of complexity. As an example, the Holcim-Lafarge Swiss and French transaction in the cement industry had to deal with 15 major competition and regulatory jurisdictions.[16] Cross-border deals must indeed cover such different areas of expertise as economy, regulation, finance, markets, competition, assets, people, technologies, and so on. Usually these elements are quite well known at the domestic level. In an international deal, when such driving elements and potential impacts must be analyzed for each of the countries at stake, this is a major issue that many firms do not correctly cope with.

Each cross-border deal is different from every other one. As a principle, each international acquirer should take as a basic assumption that most parameters change from one country to the next. By default, one should be more positively surprised by commonalities than by the local (peculiar) differences. How local economies perform, how they rely on infrastructure, how they optimize raw materials, how employees and clients consider the concept of proper social relations, work time versus leisure, duty, reporting, loyalty, and how all these apparently universal concepts are modeled is in fact very different from one country to the next. As an example, the French European leader of cosharing car transport (BlaBlaCar) has recently raised $200m to pursue its internationalization growth after the acquisition of the German second European firm in that segment. Because of currently very low gas prices, almost free highways, and a car-owner-dominant culture, the French "unicorn" (an unlisted start-up with an estimated market value of over $1b) might favor developments in Brazil, China, and India over U.S. acquisitions.

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The buy-side strategies should be clearly based on international competitive gaps. In a cross-border deal, the local business context is important, but it should not be viewed in an isolated manner. In fact, the bidder benefits from his own preexisting business base. The gap between the local context and the context already known and mastered by the bidder is therefore a critical one to assess: GDP growth, customer demand, inflation rates, interest rates, forex rates, demographic trends, organization of retail networks, local goods or services produced versus imports, and so on. All these aspects must be known by the buying firm to ensure it has reliable expectations and a good leverage of potential synergies. The list of potential gaps is considerable—one way to tackle it is to list the key performance indicators of the target, and identify systematically how to modify the existing business model. Manufacturing or supply costs,[17] market growth rates, consumer spending, public subsidies, leverage of public infrastructure or educational resources, and tax rates are gaps that any international investor will compare and leverage in building its acquisition business plan. The bigger the gaps, the greater the opportunities.

Cross-border deals are a major way to implement new value chains and intermediate/disintermediate profits. Vertical integration strategies have been thoroughly explored for centuries by nations, empires, and entrepreneurs to gain access to gold, salt, or other needed resources. From a corporate strategy standpoint, firms may want to secure access to strategic resources (e.g., uranium in the nuclear industry, rare minerals in the chemical sector). This strategy is subject to geopolitical, economic, and technological contexts and the trade-offs that may be pursued by business executives. In a situation where the supply-side market is very competitive and increasingly reliable and homogeneous in terms of quality of delivery, there is limited need for vertical integration—outsourcing and supply chain management becomes a better option. Cross-border deals aiming at that strategy need to be assessed as an insourcing versus outsourcing strategy.

The target country characteristics should be viewed as a set of potential gaps to optimize. A large set of parameters may play a role in the importance and direction of cross-border transactions: stability and quality of the local laws and regulations, tax regimes, labor law simplicity and stability, financial markets' liquidity and sophistication, accessibility and reliability of local public institutions, availability of managerial skills and higher educational programs, and effective R&D organizations are among the national traits that help to develop foreign investments domestically as well as investments abroad.

In particular, the industry specialization is a major aspect to analyze and leverage. The relative development of an industry in a given country reflects a complex set of national advantages and constraints, built over a long period

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of time. It has also several impacts on cross-border deals: "Acquirers from more specialized industries in a country are more likely to buy foreign assets in countries that are less specialized in these same industries."[18] In other words, the higher the degree of specialization of a country in a given industry, the more a given firm in that country will be able to use available skills and assets to target and control foreign acquisitions. The more an industry is developed at the local level and represents an important chunk of the GDP, the more local firms in that industry may be on the buy side—this plays in favor of the general extension of the pharma industry out of Switzerland, the financial services out of the United Kingdom, the car industry out of Germany, or the consulting services out of the United States. The degree of specialization not only plays a role in the occurrence of the deals, it plays as well in the performance of the deals and the profits generated.

Successful deal execution comes with a focused and consistent corporate strategy. Cross-border deals are a way to pursue the generic strategies we have listed previously. But these strategies ask for particularly consistent approaches in order to be successful:

Horizontal Integration. In this strategy, building international synergies is driven by the capacity to increase market share through a combination of both marketing and sales improvements together with an extension of the range of products and services delivered. By nature, the integration of sales and marketing organizations will be critical, as it will fix the integration strategy for the rest of the organization. Global branding, homogeneous marketing analysis and consistent strategies, Customer Relationship Management (CRM) approaches, global account management techniques, salesforce reporting, and incentive mechanisms are but some of the different levers that can be focused on. These commercial developments abroad will, as much as possible, build on comparative cost advantages[19] and product synergies.[20] Large firms with well-implemented economies of scale, as well as firms benefiting from high domestic industry specialization, can leverage such cost advantages in their foreign acquisitions.

Vertical Integration. In this strategy, the coordination of information and decisions across the value chain is critical—from purchasing to client delivery. The quick integration of the purchasing organization and supplier management processes, the implementation of integrated information systems, quality management, manufacturing methods, and transport and logistics optimization are essential to executing this strategy.

Consistencies. To be more precise, in both strategies above, there is a need to look at all the components of the value chain. Horizontal integration is not at all about a front-end-only action plan. Manufacturing

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improvements in terms of quality or product range extensions may be the key elements supporting the market share extension.

The role of intangible assets is increased in cross-border deals. Firms with a global presence have a high proportion of intangible assets,[21] and there is a connection between the foreign expansion strategy and the accumulation of such assets.[22] On the other hand, it is worthwhile to note that the more intangible assets a firm has, the easier it is to circulate those assets internationally and the greater are the potential synergies between countries and the value of being a multinational firm.[23]

The faster internationalization of firms generates a new type of cross-border deals and issues. Cross-border deals are expected to generate a number of outcomes, for example, limiting potential competition, enabling firms to insource local profits, to gain from incremental local marketing or manufacturing techniques, to benefit from different national economic cycles and extend the life cycles of and incremental profits from domestic products. The high degree of interconnection between national markets, the speed of information from and to these markets, and the growing role of technology as a critical industrial asset accelerate the need for firms to get global. The internationalization of firms needs to be almost instantaneous so that the information gained from one competitor abroad cannot help him to adjust and react and build defensive strategies. The increasing globalization of markets thus accelerates not only the degree of internationalization of firms but also its pace. Cross-border deals historically were conducted by firms with well-established and profitable domestic markets. They are now more and more open to younger experts in their early stage of development, with home markets that are not yet even profitable. The risk is thus higher, and the well-accepted business principle “the first one takes all” can very quickly become “the first one risks all.”

Funding is particularly important in cross-border deals, as it builds on international financial gaps. Buyers may benefit from many financial gaps in cross-border deals. As for funding, three elements are key:

Generation of Cash. Firms with well-established domestic positions can build on this generation of cash to accelerate their growth abroad. They may leverage their existing resources to accelerate foreign growth through aggressive product pricing or productivity investments. Once the acquisition is done, they may leverage their internal processes, systems, and assets for the benefit of their local firm, and boost innovation and growth at the local level.

Debt. Firms from advanced and important economies can benefit from low levels of national interest rates and lowered corporate bonds rates. They have access to large, sophisticated, and competing banking services that may optimize the debt strategy from a tax and risk perspective.

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Equity. International acquirers may also count on a dynamic domestic stock market, with high valuation rates and a significant investment base.

Hostile cross-border deals are more difficult to handle than domestic ones. M&A transactions may be hostile or not. Hostile takeovers are not the dominant part of the market, but in some countries, the number of hostile transactions may be significant. This is a factor that plays a different role in cross-border deals:

- Hostile deals are less likely to happen on cross-border deals than on domestic ones.
- In many non-U.S. markets, hostile M&A transactions will not be considered likely to happen.
- On the contrary, friendly deals may be developed by local banks or other financial institutions or investment funds to protect national interests and create national champions. Such deals will benefit from the direct and indirect support of the local administrations or political bodies, and the public opinion and media.
- Differences exist between countries, but the more the bidder can demonstrate its understanding and care for local interests, the better.

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Cross-border deals are often subject to geopolitical change—firms need to be ready on this. Any major international change affecting the economy, access to resources, foreign investment policies, or the creation of new markets may fuel or hinder the development of cross-border deals.

- The containment of risk at the local level is not a valid strategy anymore. Changes occurring at the local level will be instantaneously known at the global level. This means that any local subsidiary needs to be controlled as much as any component of the organization close to HQ.
- There are currently plenty of such geopolitical changes: Ukraine and the Russian border with Europe, Yemen and the Persian Gulf area with the risk of widespread destabilization, Iran versus Israel on nuclear developments, Libya and the North Sahel in the aftermath of the so-called Arab Spring, Nigeria and central Africa against the Boko Haram sect, Syria and Iraq against Daesh, and so on.
- All these geographical areas are not only generating risks within their own borders. They also have considerable domino effects on neighboring countries (the European Union, Egypt, Saudi Arabia, Mali, and Chad, or Lebanon, Jordan, and Israel). They create new terrorist risks that may develop in faraway places (the United States, the United Kingdom, France, Denmark) and influence public opinion, economies, and business contexts in their home territories.

- The globalization of the Internet is also generating a considerable set of new risks (e.g., cyber-security breaches).
- In return, firms tend to enlarge and deepen the due diligence process: assessment of country risks, analysis of operating risks, and mitigation plans.

STRATEGIC MOTIVES

We differentiate strategic motives for cross-border deals from external factors influencing their outcome. Strategic motives depend on the acquirer and its strategic vision. The definition of such strategic goals on the buy-side, and its clear communication with the target in the implementation phase, will be a critical success factor in any cross-border deal. It is therefore critical, in particular in SMEs considering their first international deal, to ensure that these motives have been sufficiently analyzed and challenged.

Agility (i.e., adaptability) is a business imperative. There is today a widespread consensus regarding the need for a firm to be agile. Being agile means to swiftly adjust the firm to the business context and enable the firm to make profit out of it. By nature, corporate strategy must be adaptive and react to external or internal stimuli. The decisions aimed at growing the revenues, improving the profits, monitoring the risks, improving the various aspects of competitiveness, and hiring more competencies are always context-based.

Agility must be actively monitored as corporate size increases. In reality, the bigger a firm is, the more structured and ambitious it should be in terms of portfolio review and asset trade-off. Being agile does not mean only accelerating the time-to-market routines and the innovation pace. From an organizational and patrimonial standpoint, it means also constantly challenging the boundaries of the firm. As firms grow, they need to be better at divesting. As they invest, they need to be better at targeting and executing.

Internationalization and cross-border deals ask for a strong decision-making process linking strategy, deal execution, and post-merger implementation. M&A and cross-border deals are a key solution to address fundamental strategic questions such as how to grow revenues, improve profitability, increase assets, and develop capabilities. Any executive looking for such goals will consider making deals. When markets become more mature, more concentrated, this same executive will not only look at domestic targets. He will also look at international ones. He will have to make his judgment call based on another dimension of the context—the international one. What are the specificities of the local country? How can it support the profitability and growth of the target firm? Will there be any regulatory

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issue or local law that will drastically impact the local business or its synergies with the global group? All these questions, which are already difficult to assess in a well-known domestic market, will have to build on an entirely new perspective of things. The more you get into an international deal, the more you grasp this complexity. So you had better be prepared for the type of questions and factors that will be linked to a cross-border deal. To be ready, any executive trying to assess a cross-border deal situation should develop a precise view of the business context. This is normally part of the strategic assessment of the early pre-deal analysis. We aim at providing here a general view of the major elements at stake that may justify and play a role in an international deal.

Internationalization of Firms: Strategic Goals Pursued

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Firms may pursue multiple strategic goals through cross-border deals, and target multiple classes of assets, tangible or intangible ones. Depending on the specific nature of the deal, strong differences exist in the type of results targeted, the degree of integration required, and the duration of the integration process. We need to detail a few consequences of the strategic goals pursued on the integration approach itself.

Access to Natural Resources. Such a deal aims at controlling a particular resource that is produced locally: agricultural goods (sugar, coffee, wheat, wood, sheep) or other natural goods (mining, oil, uranium, rare metals). This type of deal requires attention to the contracts of ownership, exploitation, distribution, and any restrictions to produce, sell, and export. The evaluation of the inventories is a critical aspect (size, annual production capacities, incremental costs of production, evolution of market prices) as well as all the aspects related to the actual operations to produce (environmental obligations) and sell (transport issues, administrative authorizations to export). In many such deals, there may be considerations related to local political interferences and geopolitical risks.

Access to New Markets and Customers. The buyer's goal is to leverage the existing local customer base, develop it and increase the scope of products and services sold. By nature, this requires a solid assessment of the global market conditions and trends (segmentation, growth, product margins, competition) as well as a precise view of the assets bought (sales force organization and reporting mechanisms, customer databases, client concentration, client contracts). Revenue synergies are key, and are known to be quite difficult to assess and follow up.

Access to Production Assets. This strategy focuses on leveraging local conditions of production that are better than the existing ones. This may be on the purchasing and supply side (local suppliers, less transportation, limited supply risks). It may also focus on manufacturing costs (low labor costs and favorable legislation, high local subsidies, better transport and logistics).

Access to Research and Development Assets and Intellectual Property. Cross-border deals may also pursue the objective of increasing the control over interesting R&D teams. Elements such as easy access to engineers, math scientists, physicists, biologists, international universities or research organizations, public funding mechanisms, and so on, are critical in the due diligence process. Some countries have developed specific environments that play in favor of research and innovation. This is in particular linked to their educational system, their infrastructure, and their cost. Each firm must optimize the international development of the clusters active in their specific business scope. They may form the basis for the screening of the best environments where acquisitions can be made. We can list but a few such areas where global competition is developing: artificial intelligence (deep learning, virtual brain); drones (military or civil security, other business usage); enhanced reality (image recognition, man–machine interface) cyber-security (counterterrorism, network and data security, man recognition, hazard prevention); renewable energy (wind, solar, marine); energy piling (batteries); smart grids; air transport (light materials, electrical engines); aerospace transport; pharma generics and on-demand production; robotics (brain interface, exoskeletons); intelligent cars; distant medical care (surgery, prevention).

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Cross-Border Deals versus Other Types of Transactions

Cross-border acquisition versus greenfield. Cross-border deals are often (and must be) evaluated against the greenfield option, that is, development from scratch. For a firm considering international growth, the greenfield option is to create a local subsidiary and manage its endogenous growth with the support of the rest of the group.

Such a market-entry strategy has a number of advantages:

- Better control on the level of local investments and growth pace
- No inertia in terms of organization, process, or skills
- Capacity to optimize the relations with HQ and the other subsidiaries (financial, governance, tax and legal, localization of assets)
- Absence of liabilities due to past business misconducts or mistakes

However, cross-border acquisitions very often represent a preferred market-entry option as opposed to greenfield investments:

- It goes faster (branding, customer and other stakeholders' relations are there already).
- It forces management at the HQ level to understand local constraints and adjust to local practices, which headquarters would otherwise have underestimated.
- It brings some potential opportunities of improvement on the buy side as well.

Cross-border acquisition versus joint venture (JV). Some countries—China, or Gulf Cooperation Countries (GCC), for instance—do force foreign investors to go for a shared approach with a local player. But JVs should not be viewed as purely defensive tools: they are indeed a true alternative to acquisitions in any domestic or international corporate strategy. JVs are well known for a number of advantages as compared to acquisitions:

- The co-owner may bring its local knowledge and assets to accelerate growth (e.g., Feng with Peugeot SA in the automotive sector).
- JVs may be a first step in developing a long-term market-entry strategy.
- The scope of what is shared may be very selective either from a product range perspective or from a functional or operational standpoint. The scoping is really customized.
- It is possible to negotiate the buy-back of the shares of the co-owner.

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However, acquisitions are often preferred to JVs because of governance issues and lack of strategic alignment with the co-owner of the JV:

- The governance model in an acquisition is clearer; decision-making is simpler and decisions can be implemented at a faster pace.
- The risk of creating a potential competitor is more managed (e.g., Danone's problems in China).
- In a JV, there might be some costs and discussions regarding the pricing of the assets shared—this discussion may be very detailed, and endless. In an acquisition, the pricing issue is simplified.

Differences between Industries

Every industry is different in terms of M&A constraints and business context. Let's take some examples to illustrate the wide variety of topics to consider in a cross-border deal.

The Chemical Sector It is a business-to-business industry—it has a limited number of clients, which means that the contracts with such clients are key. These clients may themselves belong to major groups, so the degree of consolidation of the clients must also be analyzed carefully (CRM databases, key accounts' management organization). Volumes depend on the segment of the industry (specialty versus commodity). In many segments, products do have to move from one plant to the other before they are sold to the end-client. Transport and logistics are key, as well as transfer prices and tax impacts. Environmental constraints are critical, and there should be no deal without a thorough analysis of all such risks and potential costs. Revenue synergies will be more on client relations, cross-selling, and product range increase, and cost synergies more on support functions, engineering and R&D teams, industrial performance and utilization rates, maintenance, purchasing and logistics, quality, and EHS management.

Information and Communication Technologies This industry groups very different firms. If we take the telecommunication incumbents, cross-border deals will focus on the customer database, churn rate and market share, the coverage of the network, the roaming agreements, and the capacity to innovate and propose mobile or Internet services. Synergies with international groups will be focusing on joint product offerings, marketing costs, and management of the network backbone. In the electronic components segment, the R&D assets, the purchasing performance and contracts, the manufacturing and supply chain international optimization, and the forecasting and production planning systems and procedures will be key focal points.

Financial Services Financial services is a sector with very specific characteristics, in particular in the banking segment. It may have limited tangible fixed assets for some of its segments (financial advisory, research). On the retail and corporate banking side, it relies very much on the balance between its cost of resources (interbank rates, savings accounts) and the costs of its loans (corporate loans, mortgage loans, personal credit). On the asset management side, the quality of the portfolio of clients, the types of investment policies, and the capacity to deliver such investment strategies and to generate margins and fees are critical. The type of products and services definitions and regulatory constraints may vary quite significantly according to countries, and it is essential to understand the compliance and regulatory situation and potential changes. The distribution costs may vary a lot between banks in relation with social habits, or more technical elements such as the degree of local Internet usage, or the availability of e-banking services.

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FACTORS INFLUENCING CROSS-BORDER DEALS

Many external factors may influence a cross-border deal—we identify four different clusters of factors that are intertwined. They cover, broadly speaking, finance, regulatory, sociopolitical, and cultural dimensions.

Before getting into some details about each of these clusters, it is important as well to highlight that there are different levels of influence. We identify four such levels: global, country, industry-wide, and firm-specific levels. Each factor and cluster of factors may be analyzed from a specific level perspective (for instance, corporate finance theories may give rise to the use of takeover techniques at a global level, and this may be different from one country to another, one industry to another, one firm to another).

Generally speaking, we view these entry points (types of factors, levels of influence) as an analytical grid helping business executives confronted with this general complexity to try and structure thoughts and ideas.

Global, Country-, Industry-, and Firm-Specific Factors

Firms have to permanently optimize their strategy, structures, processes, capabilities, and systems according to a number of external or internal change forces (e.g., the introduction of a new technology), based on inner assets or weaknesses (e.g., strong innovation skills but little cash).

A firm should never be viewed as a set of fixed long-lasting elements. It may appear solid and strong due, for instance, to a high level of physical assets, but the most solid element of a firm is its capacity to generate revenues, and this may change quite rapidly.

It is hence a basic duty for executive teams to spend intelligence and energy on what may be causing changes in the eco-environment of the firm and anticipate how those changes will impact revenue streams and profits. In a cross-border deal, there should be a 360-degree review of the forces at play.

Firm-Specific (Microeconomic) Forces This definition is not that trivial—most financial or strategic decisions are in fact dependent on external factors. But let's assume that the financial situation of a firm, as opposed to another firm in the same sector and country, is linked to priorities, decisions, and efforts that are under the control of the firm itself. Its growth rate, its level of investments, its compensation and benefits policy, its manufacturing organization, and its acceptance of risk are elements that may differ from one firm to another.

- The decisions to invest abroad, to allocate a certain percentage of the cash flow on such investments, to choose between very similar locations,

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to acquire versus to build a joint venture or have a greenfield approach, all these elements are partly constrained by internal economic parameters and their perception within the firm. These financial elements that differ from one firm to another may justify or contradict the interest of a cross-border deal, and may ease or hinder its execution.

- These forces may vary significantly across firms, even in the same industry and country. And it is not only because of actual differences regarding hard facts and figures. Perceptions and corporate history are as important as the facts and figures themselves. Firms do not perceive hard facts the same way—this depends on the corporate history, the successes and war stories discussed among employees, the lessons learned over time and individual careers, the internal culture, and so on.
- Take for instance GM and Chrysler in the automotive sector in the United States. GM has implemented since 2008 a major U.S.-led change program, with the sell-off of major units to decrease its debt and improve its operating income. GM has exited the Chevrolet brand, closed a number of plants, transformed its dealers' network, and reimbursed the state funds provided in 2009. During that same period of time, Chrysler has been restructured under the leadership of Fiat and its CEO, Sergio Marchionne. The focus has been put on synergies in the design and production of new cars, growing international distribution, and improving the productivity of plants. To put it simply, GM has downsized its fully owned capacities to reengineer them, whereas Chrysler has been more integrated into Fiat to become more competitive. GM has been on the defensive side to retain customers, play loyalty, and regain past market shares, whereas Chrysler has focused on image, growth, and innovation. But there is another element to these differences, which illustrates the role of history in a firm. Chrysler had previously failed in a major merger process with Daimler—this failure is quite well known for a worst-case in terms of how to manage a cross-border deal. This very specific experience has helped Fiat to build with Chrysler a more synergetic organization.

Industry-Specific (Mesoeconomic) Forces Industry-specific forces must have been identified in the strategic analysis and assumptions must be consistent with business forecasts. At the intermediate level there are also major differences from one industry to another in terms of economic forces at stake and their relation with M&A deals:

- Due to past managerial failure, banks and financial services have been put under growing public constraints, and this has had considerable

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consequences on how this industry may generate growth and profits. Executives find it more and more difficult to find growth in less regulated business segments or countries. Forced exits from tax haven–related services, banking secrecy, and other "optimization" services will force banks to reconsider their portfolio of activities and value more sustainable and acceptable business targets.

- In some mature industries (pharma, banks, automotive), organizations have grown extensively, reaching sizes that generate diseconomies of scale, organizational inertia, and productivity problems. In these same sectors, new entrants are developing innovative services based on the extensive use of emerging technologies to break down structural costs and organizational inertia. Serial acquisitions of start-ups are a way to cope with the negative effects generated by the maturity of a sector.
- On the contrary, other sectors are being deregulated with public approval, generating new sources of revenues and new M&A opportunities. For instance, a wide range of services emerged based on customer-to-customer concepts allowed by new IT platforms, such as in the transport sector, or the production of energy for individual energy providers.

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Impact of the national degree of specialization. There is a connection between the degree of specialization of a country in a specific industry and the nature and role of the industry-specific forces. A strong industry in a country is generally linked to a set of favorable forces that are both a cause and a consequence of this development. Analyzing the target industry and its positioning in the target country should therefore be among the preliminary efforts of an international screening process. Based on the International Standard Industrial Classification (ISIC), it appears for instance that the United Kingdom was highly specialized during the years 1990–2010 in "legal, accounting, and auditing activities" and "advertising," whereas Russia specialized in "transport via pipeline" and "railway and tramway locomotives," France in "electric lamps and lighting equipment" and "tanning and dressing of leather," Germany in "retail trade not in stores" and "sales, maintenance, and repair of motor vehicles," Finland in "television and radio transmitters" and "paper products," and the United States in "renting of transport equipment" and "education."[24]

Country-Specific (Macroeconomic) Forces At the national level, one country may differ widely from another. One of the first tasks of a corporate development officer and his or her team is to gather information on the country's risk. This is evaluated constantly by international organizations, such as Compagnie Française d'Assurance pour le Commerce Extérieur in France. However, despite the seemingly converging trend on the level of institutions

and industries, there are many examples of the lasting gaps between nations regarding collective priorities, regulations, investments, and public demand. Lobbies, media communication, industrial dependencies, and perception of risks do influence such sector-based changes. Transport, defense, health care, and public services are all indicative of major differences between nations as to what people expect from firms in terms of quality of service, productivity, costs, and so on.

Global Worldwide (Metaeconomic) Forces There are a number of global forces that impact the business context as well as the rationale for launching a cross-border deal. Accessibility and cost of earning production resources or customer revenues is impacted by multiple forms of disruptions. Generally speaking, disruptions created by new regulations, new technologies, new energy sources, or new connected products or services can drastically impact the benefits of being located in one country or another.

Four Different Clusters of Factors

As mentioned above, a wide number of external factors may influence cross-border deals. The term "economy" is often used beyond its strict scope to cover all such external factors. This is partly true—one might say that everything related to M&A and cross-border deals must be related to economy. However, to be more specific in our analysis of cross-border deals, we need to differentiate between clusters of factors, with the view of being consistent between the different levels identified in the paragraphs above (firm, industry, country, global).

We suggest distinguishing between four major clusters of factors, which all interact together, evolve over time, and all have an influence on M&A strategies and cross-border deals.

Corporate Finance/Financial Markets/Economy. This cluster covers all the aspects referring to the technical understanding, development, and actual use and optimization of funds—from the corporate finance allocation decisions in a firm or in an industry to the specifics of financial markets at a national or international level and, beyond this, to the key technical aspects of the national and global economy (growth rates, exchange rates, inflation rates).

Governance/Regulation/Institutions. This cluster groups all the elements dealing with the formalization, tracking, and follow-up of decisions under a set of approved procedures, architecture of powers, compliance control aspects, and professional or regulatory constraints. This covers for instance the existence of strong corporate governance mechanisms, industry-based regulations and institutions, and state or nonstate agencies and their capacity to define, track, and sanction corporate misbehaviors.

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Individuals and Unions/Industry Organization/Politics. This cluster of forces covers all the elements related to the representation and balancing process of individual and collective interests and viewpoints—starting from the individual level of each employee and the hierarchies to which they belong (e.g., employees versus managers), up to the unions and other professional organizations, to the representation of the sector as an industry, and ultimately to the social and political system as a whole.

Education/Corporate Culture/Culture. This fourth cluster covers all the elements that shape behaviors and influence and make sense of business performance. That covers the education of the local workforce from the shop floor to top executives, their access to and development of innovative knowledge, and the existence within firms of strong specific corporate identities, rituals, and beliefs. It covers as well such national cultural specificities as attitudes toward time and efficiency, authority and legitimacy, power and justice, and toward money and ambition.

It is worthwhile to add that we view this high-level clustering approach as purely instrumental—it serves our purpose to present all the different factors in a simple way. We acknowledge therefore the fact that this clustering may be somewhat challenged. Nevertheless, it is critical in our perspective that executives do understand that economic factors are only one among a list of other types of factors influencing cross-border deals.

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Corporate Finance/Financial Markets/Economy

This cluster covers financial and economic aspects, from thoughts to statistics and results. There is a continuum of aspects there, from the understanding of corporate finance techniques within firms, to the leverage of these techniques in specific deals. These deals may build on a favorable development of financial instruments and markets. They may also benefit from specific economic conditions that will give decision makers information about the potential profits to be generated from a potential deal.

Use of Corporate Finance Techniques at Firm Level Cross-border deals ask for a certain degree of sophistication in finance terms. Valuing a firm requires the use of methods such as discounted cash flow analysis (DCF), concepts such as the weighted average cost of capital (WACC), and estimates of different types of risk-related rates (risk-free, country risk, firm risk, currency exchange risk). It requires the understanding of tangible versus intangible assets valuation, the analysis of the best funding strategy as well as tax and legal impacts and optimization options. These elements are not easy to

understand, rationalize, and model. Cross-border deals cannot be successful without a sufficient level of such corporate finance and tax and legal skills to analyze, plan, and deliver. It requires as well good managerial leverage of such skills, and many deals are unsuccessful because of the CEOs' overcentralizing decisions without the right technical skills.

Size of the National Financial Industry The existence of listed firms in well-established and active stock exchanges is a positive factor for international transactions. It limits the risk of political interference in the deal process, provides a better stock valuation basis for negotiation, increases funding options and deal-structuring approaches, and may improve future exit strategies if needed. M&A waves are linked to the development of stock market volume, prices, and regulatory processes. And cross-border transactions (inbound and outbound) are linked to the general maturity of the M&A markets.

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Stock Market Evaluation Price-earning, price-to-book, price-to-free-cash flows are all ratios that provide an evaluation of the value of a firm by financial analysts and investors and thus its capacity to buy or to be bought. The recent Nokia (Finland) versus Alcatel-Lucent (France-U.S.) deal is a good illustration of that. Pre-deal, the two groups were about the same size in sales and in number of employees, but showed a huge gap in terms of profits and market capitalization. Based on the pre-deal market values, the acquisition has been achieved on the basis of 55 Nokia shares for 100 Alcatel ones with a 28% premium. As a result, Nokia could represent about two-thirds of the combined value—by far not a merger of equals. This case poses also very clearly the question of timing—had Alcatel-Lucent been able to delay the merger and improve its profits, it would have modified the merger conditions and its capacity to decide on the future strategy.

Interest Rate Levels Interest rate levels have numerous impacts on international deal making. Major firms in well-rated countries have access to lower corporate bond rates than their counterparts in riskier places. This may help them fund their acquisition at a reduced cost and may also enable them later on to fund investments without having to pay for the local high rates. The positive spread between high foreign rates and low domestic interest rates favors international deals as well as future synergies. Corporate interest rates are interconnected with public debt rates—the higher the risk-free market, the higher the corporate bonds. National political decisions—such as the launching of a quantitative easing program or a sovereign debt default—may have major impacts on corporate interest rates. In a period of political uncertainty, the spread may be very volatile: In mid-2014, the 10-year

government bond was at 18% for Greece versus less than 1% for Switzerland or Germany. Since that peak, international rates have significantly decreased in Europe, and spreads have shrunk. In general, most advanced economies benefit from lower public and corporate bond rates as compared to emerging countries, which favors geographical diversification and investments in these countries.

Inflation Rates Cross-border deals have also to take into account international gaps in terms of inflation rates, especially in countries where inflation rates may be double-digit or more. In such conditions, it is useful to build the business case on deflated values as well as on nominal values. Generally speaking, a high inflation rate has a negative effect on the quality of business forecasts, as the capacity to model future sales and operating costs is altered. It is also important to notice that in some countries, cost elements such as infrastructure costs (transport, energy, public services), the minimum wage, or the pension system may be automatically adjusted to inflation.

Forex Rates In the first months of 2015, the euro lost about 20% of its market value against the dollar. For any U.S. firm considering an acquisition in Europe, such a change may entail a number of consequences: lowered deal price in dollar value, and increased strategic capacity to target bigger acquisitions. In the same time, such a euro/dollar decrease cuts the level of potential dividends to be consolidated by the bidder, and the dollar value of the synergies achieved on the local market. The forex rate impact is a bit more complex if we view it over time: Whereas the deal value is calculated at one point of time, the consolidation of accounts, the debt payments, and the dividends paid will evolve over time according to the forex rates. A brutal forex rate variation may also impact significantly the sales forecasts at target level, or the supply of products and services between the group and the local target, thus impacting potential synergies. Generally speaking, the higher the forex rate volatility, the higher the profitability should be from the deal.

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Gross Domestic Product Growth Rates Local market demand is a major factor in deciding to invest abroad. In mature economies, and in the absence of any specific technological or other disruption, companies face declining market growth rates. At the national level, GDP growth rates tend to converge to 1%–3% per year. The lower the internal demand, the higher the need to look for foreign alternative sources of growth. Since the 1980s, advanced economies have progressively moved away from their 7%–10% GDP growth rates to lower rates closer to 1% to 3% per year. For the past decade, the BRICS have served as a global growth engine, with rates above 10 points. This is now changing, and economic slowdowns or even

recessions in these countries are now occurring, generating increasing challenges on how to fuel growth and ensure political stability. Taking a helicopter view, the U.S. mortgage crisis of 2008 may end up being one of the most important macroeconomic and geopolitical events since 1989 and the breakdown of the Soviet Union. In this situation of slower and volatile GDP growth rates, other parameters such as country risk assessments become necessary inputs for M&A forecasts.

Governance/Regulations/Institutions

This second cluster is about laws, regulations, compliance, and procedures. It is about factors that influence the context of decisions, the possibilities of firms to develop their strategies, the obligations they have to face in terms of reporting to public or professional bodies. It covers the following.

Corporate Governance Cross-border deals depend very much on the quality of information and the traceability of decisions. Firms must respect a number of general principles shared at the international level since the mid-1990s:

Effective Board. People appointed at the board level must have sufficient relevant skills and information. Independence is needed, as well as a minimum level of commitment.

Integrity and Ethics. Firms should base their decisions on the existence of a formalized and agreed-upon code of conduct that promotes ethical and social and environmental responsibility. Corruption should be tracked and sanctioned.

Disclosure of Information. The roles and responsibilities of the board and management must be communicated externally. The integrity of the company's financial reporting should be audited independently. Procedures linked to financial information, major business risks, and mitigation actions should be clearly documented and assessed independently.

Equitable Treatment of Shareholders. This aspect requires providing open and honest information to all shareholders and organizing general meetings to explain and validate major business decisions.

Compliance vis-à-vis the Rights of the Other Stakeholders. Firms have to manage a fair balance of interests among employees, investors, creditors, suppliers, local communities, customers, and policy makers. The expression of such interests increases naturally with the development of the countries and with information. As a result, executive boards' goals are subject to a growing set of contractual or legal obligations.

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Resistance to such collective trends and attempts to develop unethical or even unlawful corporate behaviors are increasingly risky and expensive.

Board of Directors versus Supervisory Board Firms may implement different governance models according to their national contexts and regulations. Broadly speaking, two major models exist:

1. An Anglo-Saxon one with a board of directors that is normally dominated by nonexecutive directors elected by shareholders.
2. A continental European one (Germany, The Netherlands), with a difference being made between an executive board (company executives focusing on day-to-day business) and a supervisory board (nonexecutive directors elected by shareholders and employees focusing on the selection and compensation applicable at executive board level, and the evaluation of major business decisions).

Below this level, a managing board normally convenes all the executive directors every month or so. It focuses on all business operations. In a cross-border deal, the staffing of this board is key, as it reflects the degree of control the acquirer wants to impose on the target.

Such a hierarchy of instances may be simplified in smaller firms, with an executive committee only and the presence of executive directors and key shareholders focusing on all business operations. In any case, the meeting minutes are a critical piece of information in a cross-border deal.

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CEO and Chairman of the Board The two roles may be either split (often the case in the United Kingdom) or merged (often the case in the United States or in France). The split depends on the size of the firm and the situation (HQ level or subsidiary). The split between the two roles may be considered a positive element of stability in an acquisition, as it enables maintaining the CEO in place if that is of interest.

Committees The existence of independent committees—the audit committee, the compensation committee—is another element of sound corporate governance, though it depends very much on the size and nature of the target. When these committees do exist, they may provide the bidder with more documented information and independent reviews.

The Human Resources Local Market Countries may differ widely regarding the size and activity of the local market for executives. In emerging countries, it might be difficult to recruit new executives or individuals with critical skills.

In such cases, the staffing of expatriates may bring a temporary solution, but may also generate some negative effects (cultural ignorance, lack of local contacts, insufficient links with local employees, high costs). The absence of a very active local HR market may also give rise to a high level of local individual corruption, and informal business practices.

Investors' Rights M&A research highlights the positive role of clear national laws and decisions about investors' rights on foreign direct investments and cross-border deals. The more the interests of foreign investors are protected, the more cross-border deals are likely to happen. On the other hand, political interference, corruption, lobbying against foreign investors, and the lack of legal enforcement of investors' rights are elements of risks that will normally be factored in when assessing the cross-border deal and the required rate of return.

Accounting Standards This is another well-known element of influence on foreign investments and cross-border deals. The convergence of standards at the international level is a real trend (e.g., the rollout of International Financial Reporting Standards) but there are still huge national differences when considering small and medium firms operating in domestic markets only. The use of local correspondents of international audit firms is a common practice to track and model such accounting gaps.

Sector-Based Compliance Rules The notion of risk and compliance is also a significant element supporting or jeopardizing M&A deals. This aspect has dramatically changed over the past 20 years, with a growing number of obligations in all countries (safety rules, environmental norms, labor laws, financial ratios, manufacturing and construction norms), which for most of them raise the operating costs. The number of people employed in internal control teams, audit, and compliance has risen. But gaps exist between countries—emerging countries do not impose the same rigor and level of compliance than do more mature economies. Local profits may be improved due to strong externalities: The collective costs of poverty, health problems, lack of education, and so on, are not financed by the firm itself. Corruption tends to delay the insourcing of such costs and maintain operating costs at low level. One must however anticipate that the incidence of business scandals (China, Kuwait, Pakistan, India) will not diminish. The development of the Internet and whistleblowers has tended to homogenize the international demand for norms and rules. At the other end of the value chain, customers from advanced economies are increasingly informed about production conditions, imposing their own needs and requirements (e.g., in the textile industry in Malaysia).

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Institutional Quality This parameter takes a broader perspective, as it qualifies the general national context in terms of lawmaking, regulatory constraints, and the functioning of the different public or private agencies enforcing such policies at the national level. Emerging countries face huge difficulties in setting up the required conditions to provide the level of institutional quality known in the advanced economies. Lack of financial resources leads to corruption, insufficient controls, and unknown corporate risks. Political instability, a weak state and administration, and lack of public sector independence are factors known to play against cross-border deals and foreign investments.

Sociopolitical Parameters

This third cluster is about how cross-border deals may be influenced by social and political factors, that is, existing collective structures. These structures play a highly differentiated role according to countries—they are built on different histories, convey different objectives, and show different operating modes of action. Because of their inertia, executives have to adjust to these factors at an industry or national level as much as they may want to change or modify them at the firm level. It is therefore key for executives to spend some intelligence and energy on catching the key specifics of the country, industry, and firm the transaction is focusing on. One must also have in mind that too often, the "one size fits all" approach on these factors is often a shortcut leading to integration misconceptions and failure. We will just list two of these factors here—we could extend that list to many other factors as well (professional organizations, political parties).

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Unions In many open economies, the existence of unions is conceived by managers as a burden. Unions are said to restrict economic choice, managerial creativity and freedom of action, and ultimately shareholders' rights. They are perceived to be essentially negative, conservative, against innovation, against corporate profits, and therefore against collective wealth. Investments abroad should therefore trigger places where there is limited employee representation and no or weak unions. This is not a universal standpoint, though its adherents make considerable efforts to present it as such. In other economies (e.g., Germany, or some other European countries) unions are perceived on the contrary as a means to achieve sustainable profits, helping firms to reach internal consensus with their workforce and helping therefore to mobilize people more effectively on well-understood and shared rational trade-offs. The impact of unions on the actual success of cross-border deals is not clear.

Our standpoint is that the impact of unions depends very much on the management approach itself, and on the corporate strategy triggered. In a strategy of profitability dependent on low production and HR costs and low standards of quality and poor work conditions, unions are an obstacle. It is less the case in a corporate strategy of long-term development based on non-instrumental relations with employees and cooperative management habits. Generally speaking, unions should not be viewed as an obstacle to progress, as long as progress is not limited to profits. The more firms communicate their values on ethics and human management styles, and the more they view human resources and capital as humans involved in a joint project, the more they learn how to manage unions in an efficient way. But this requires a real managerial education in local human resources laws, workforce practices and expectations, and a planned and structured communication with unions and workforce representatives.

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Democracy This aspect is a tricky and highly sensitive one at the international level. Is there, and should there be, a connection between cross-border deals and democracy? Our standpoint is that this connection should not be viewed in a moral perspective—deals between firms cannot have as a corporate strategic objective to modify the political organization of a country. Cross-border deals may result in local changes and social patterns, but this is an indirect by-effect. More effectively, cross-border deals support the opening of an economy, and reflect the degree of social and political change that is implemented locally. They may support such changes, but are not decisive per se. On the other hand, in an open economy, by providing a high level of institutional quality (i.e., administrative strength, low level of corruption, strong legal framework, independent public agencies) cross-border deals are more likely to succeed. Profits therefore link cross-border deals with institutional quality rather than to democracy per se, but there are some links between the two.

Cultural/Geographical Parameters

The cultural aspect is a major topic—it is dealt with separately (Chapter 7). Broadly speaking, managers are often confused as to what the term *culture* means, and to what extent it refers to a complex set of knowledge, skills, beliefs, behaviors, or rituals. Chapter 7 provides a view of these aspects.

Social Fabric Advanced economies are the result of centuries of common educational processes, and historical events assembled in a collective process of sense-making. Individuals learn at schools a considerable number of

elements that bundle their vision together and develop a sense of collective identity as well as a view of the different building blocks of the nation they live in. This social and educational process differs widely between nations. In many countries, school is still limited to a small elite, and this results in a social fragmentation that has major impacts on business practices. It is an advantage for a foreign entrant to understand those key dimensions and how they may evolve.

Languages and Dialects In many countries, there is not one but several competing languages or dialects. In most African countries, there are many people knowing more than five different dialects. In the Democratic Republic of Congo, there are four national languages admitted, with French being the official and administrative one. This does not mean that all these dialects must be known, but any integration manager should take the view that language, and translation, may be a serious concern when managing workforces abroad, especially when dealing with large, populous countries.

Communities The use of these different languages is linked to another aspect that any new investment abroad has to deal with, which is the type of cultural segmentations that may be built on from a business perspective. Any nation is made of multiple communities that are more or less assimilated and bundled. These communities exist both vertically (aristocracy versus the "untouchables") and geographically. They have their own representations, work patterns, educational specificities, consumption models, and financial archetypes. Particularly in business-to-consumer acquisitions, it is very important to understand early what are the social communities at play and to what extent this local configuration may play for or against the integration plans and financial forecasts. This view of social segments should be supported by local surveys and contacts with local faculties, and should result in well-designed marketing strategies. To take an example, a European bank providing services to high-net-worth customers had analyzed years ago a specific inconspicuous savings service focusing on women potentially facing repudiation.

Beliefs and Values Among many evolutions, advanced economies are marked by the growing role of individuals, as opposed to local communities or extended families. This has huge impacts on the way employees value individual performance, reward individual efforts, and evaluate management decisions and loyalty. On the client side, it plays in favor of individual consumption, access to symbols of wealth and success, and a more challenging demand for service and quality. This trend is observed at the global level, but the status may be very significantly different from one country to another.

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Firms have to deal with customers or employees who have social relations that are shaped differently. It is a success factor from an HR and a marketing perspective to take this eco-environment and set of beliefs and priorities into account and adjust accordingly internal services (e.g., analyze how to support the education of single-child employees or ease the commute of distant workers) or external ones (e.g., build a VIP-type approach).

Management Theories It is critical for an acquirer to share its vision on the long-term strategic goals and also legitimate the decisions the bidder takes. Of course, this legitimacy is easier to get when the concepts used are already shared per se. This is very true at a technical level—reaching a consensus in an integration work stream between engineers or technicians is normally quite easy. It is also true for managerial techniques and concepts. This is why training local executives to the key bidder's processes is so critical in a cross-border deal. Management consultants have also a significant role as they may provide an external and more neutral perspective and improve the legitimacy of the decisions taken.

Appetite for Innovation and Resistance to Change The way ideas and techniques circulate in a country and a firm is also a major element influencing M&A decisions. Countries may differ in terms of appetite for new ideas and concepts—this is linked to the education of people, the conservative aspects of a society, and its image of authority and legitimacy. Innovation is easier in a new country or region with a pioneer type of mind-set (Israel, Singapore, Taiwan, California). Development and mass success is easier in more organized societies with sophisticated chains of command (China, Germany, Ohio). But in a cross-border deal, resistance to innovation is not only about the countries at stake. It depends also on the direction of this innovation from an international standpoint. It will be more difficult for an emerging country firm to impose its innovative concepts in advanced economies than the other way around. The more a country perceives itself as advanced, the more difficult an integration may become for a foreign bidder.

"Soft" Psychological Patterns We can highlight this in a couple of ways:

- The "hubris hypothesis" is a theory that has been very much used to explain some irrational decisions made by well-informed management teams. Psychologically, executive teams may tend to underestimate potential risks in a context of collective bias for action. This psychological phenomenon may be diminished with the participation of several stakeholders in a deal, making sure that for instance post-deal implementation issues limit the sense of euphoria of the M&A team close to an agreement.

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- The "herding" behavior is another major factor that has a general consequence on the nature of the business decisions and M&A deals. At the corporate level, in a world of uncertainty and lack of long-term entrepreneurial vision, mimetic strategies are developed by managers focusing on technicalities and short-term performance as an adaptive solution. The more there is information available, the more firms and individuals with available resources may engage in "me-too" behaviors and copy common patterns. The systematization of benchmarking surveys, competitive reviews, and equity research reviews strengthens this process of mimesis to a wider number of firms at a quicker pace. This mimetic process is one of the causes of M&A waves.

CHAPTER CHECKLIST

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- **Consider the M&A market as a volatile market with ups and downs.** It has been a very active market in recent years, but it may also come down very quickly. These cycles have major consequences on the prices, the availability of resources, funding, and eventually risk. You must have a sense of the overall market situation before getting into a complex deal that will take long to close.
- **Consider a wider range of potential deal opportunities.** The M&A market is getting more important globally. The overall growth rate of the market is far above the GDP global growth. More countries are active, more sectors as well. Do not limit yourself in terms of regions or sectors. Restrictions may exist, but the general trend is in favor of cross-border deals. New frontiers arise.
- **Have a broad view of why M&A deals may develop or decrease.** Understanding the determinants of M&A waves is a positive factor in terms of strategy assessment and deal decision-making. The more you have a view of such determinants, the more you may catch the potential value out of a deal.
- **Consider cross-border deals as more complex to analyze and execute than domestic deals, then plan the work accordingly.** Take time to identify and assess all the gaps between the home business and the target business. These gaps may cover all the different components of the value chains. They may also be external to the firm targeted.
- **Make sure you have a clear and shared set of strategic motives for the deal.** Cross-border deals may pursue a wide range of strategic goals. You need to list them early and challenge them and the capacity to deliver before you close the deal.

- **Working on the actual integration plan between signing and closing will secure success in many critical ways.** You will have to get into the complexity of the implementation aspects, and challenge the early strategic assumptions through a better view of the local value drivers. The gaps between the target and the acquirer will be better understood, and the potential synergies and implementation costs and delays will be assessed more precisely.
- **In this overall process, maintain a view that strategic factors of success and failure may exist at different levels.** An organization evolves according to economic, regulatory, organizational, and cultural forces interacting between them and at different levels: individual, firm-wide, sector-wide, country-wide, or truly global. This framework is highly complex, but it provides a wide scope of potential areas of action and optimization as well. The broader your curiosity on local matters and empathy vis-à-vis them, not only at the technical level, the better your ability to make well-informed decisions that will accelerate and secure the integration process.

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NOTES

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