UNIVERSITY OF PENNSYLVANIA
THE WHARTON SCHOOL

MGMT-249
MERGERS AND ACQUISITIONS

SYLLABUS – FALL 2011

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Section 1: Monday/Wednesday 3:00pm-4:30pm, JMHH 345
Office Hours: By Appointment

COURSE DESCRIPTION

As product and factor markets globalize, technology rapidly evolves, and competition intensifies, companies worldwide are fundamentally changing their structures and processes to keep pace and take advantage of new opportunities. We are witnessing the emergence of the disaggregated and distributed global firm that leverages internal and external capabilities around the world in real-time, blurring traditional organizational boundaries and leading to the creation of virtual enterprises. To catalyze this transformation and stay ahead in competency, cost, and time to market, companies are utilizing an array of powerful but often risky inorganic strategies, in the hopes that they can "plug and play" with local and global entities, and gain the needed resources to compete effectively.

This course explores the various modes of corporate development available to managers to drive firm growth and change, including alliances, outsourcing, corporate venturing, and particularly mergers and acquisitions. The objectives are three-fold: (1) to arm you with a set of tools to facilitate the selection of the appropriate growth strategy in a given situation; (2) to provide you with insights as to how to manage partnerships like alliances, outsourcing, and corporate venturing; and, (3) to develop a comprehensive framework for executing M&As, from initiation to implementation.

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

The course has four modules. We begin by examining the different modes of corporate development, including the applicability and management approaches for each, particularly various types of partnerships. We then delve into acquisition screening and deal-making. Afterwards, we consider in detail post-merger integration. The course ends with the presentation of project work and a review of the course learnings.

Pedagogical Approach

This is an applied, case-based course with accompanying readings to help structure your thinking. Discussion questions for the case will be set prior to each session, to enable you to focus your attention. Readings are designed to provide a starting point for analyzing the case, but extension of the ideas is encouraged, as they will be applied in an integrative fashion in the discussions. Given the nature of the course, we will also apply the lessons from the cases to understand the challenges and implications of relevant recent and on-going deals. To facilitate this process, you should subscribe to the New York Times' free e-mail newsletter DealBook, to keep abreast of current deal activity (sign-up at www.nytimes.com).

Evaluation and Course Policies

Evaluation in the course is based on class participation and a group project (described below), in the following proportion:

Class Participation	35%
Project Draft	20%
Project Presentation	10%
Project Paper	35%

Discussion questions and any other assignments for each class will be posted on webCafé in advance. Any presentations and handouts will be posted on the same site after the respective session.

Since class participation is a crucial component of not only the evaluation but also the learning in the course, it is expected that you are well-prepared for each session. *Please take note* that class participation is the only component of your course grade which is individually-determined; the rest of your grade will be determined by your group's performance on the project. Thus, it is strongly in your interest to thoughtfully and frequently contribute to the case discussions.

A maximum of three excused absences will be accepted. Excused absences are defined as documentable personal illness, grave personal difficulties such as a death in the family, or religious observance. Loss of the opportunity for class participation *during excused absences only* may be partially made up for by submitting a written response to the discussion questions of the day.

A maximum of one unexcused absence will be accepted. Beyond that, unexcused absences and tardiness will adversely affect class participation marks. There is no opportunity to make up missed class participation during unexcused absences.

You will receive feedback on your performance in the class at three points during the semester. I will inform you by email around the midpoint of the semester of your relative standing in the class (top, middle, or bottom third) in terms of class participation; this feedback is purely informational in nature and will not be incorporated into your final course grade. Additionally, you will receive grades on your project drafts and project presentations.

This class has a strict "laptops-down" policy. The use of electronic devices (especially cell phones) is strongly frowned upon.

Guidelines for Project Work

The project is intended to give you the opportunity to apply your learning from the course to a context that is most interesting and relevant to you. There is a great deal of latitude in selecting a topic, as long as it relates to corporate development strategies at a firm or industry level. You may study past, current, or even hypothetical deals that you consider advisable. The topic should be well-researched, based on an extensive review of public information such as articles and reports, and specialized databases like SDC or COMPUSTAT. I strongly encourage you to attempt to gain access to the companies being studied to collect data and conduct interviews, since this can lead to a uniquely rich and insightful analysis.

Past projects have included:

- Bank of America's Strategic Acquisitions
- Anheuser Busch-InBev Merger
- Comcast-NBC Universal Merger
- BASF's Acquisition of Ciba
- BMS's Evolving Acquisition Strategy: Pre- and Post-String of Pearls Strategy
- Hertz at a Strategic Crossroads
- Disney's Acquisition of Pixar in 2006
- LATAM Airlines Group: The LAN–TAM Merger
- Verizon's Acquisition of Alltel
- Nomura's Acquisition of Lehman Brothers
- The Cola War Takes to the Field
- Amazon-Zappos Acquisition
- Hypothetical Merger between Pearson and Kaplan
- Sony Ericsson Joint Venture
- Consolidation in the Oil & Gas Industry: From Mega-Mergers Onwards

A good project will:

- clearly and logically apply the course material to the phenomenon being investigated;
- present a thorough and rigorous quantitative and/or qualitative analysis of the phenomenon;
- draw implications and suggest recommendations for managerial practice;
- discuss which insights are generalizable and under what conditions.

The project is to be worked on *in groups of five (no exceptions will be made)*. A project topic and list of group members is due to me by email **by 5pm on September 23**. During class time on either **October 3** or **October 5**, I would like to meet with each group to discuss the project proposal. For this 15-minute meeting, which should be scheduled in advance on the dedicated webCafé sign-up sheet, please prepare a one page project outline with a description of your topic, the sources of data, analytical methods, and progress to date.

A draft of your project is due to me by file upload on webCafé **by 5pm on November 4**, on which you will receive feedback. This draft is to be in presentation form, but with sufficient detail to enable it to be read as a coherent document (as is common in consulting and investment banking circles). The final presentation of your project will take place during one of the designated classes between **November 28** and **December 5**. The final paper is due **by 5pm on December 9**, to be uploaded on webCafé. The paper is to be a maximum of 20 double-spaced pages, excluding exhibits.

CLASS SCHEDULE

I. MODES OF CORPORATE DEVELOPMENT AND MANAGEMENT OF PARTNERSHIPS

09/07 Session 1: Course Overview

09/12 Session 2: Deciding Between Corporate Development Strategies
Case: Monsanto's March into Biotechnology (A) *(HBS)*
Reading: Organizing for Innovation: When is Virtual Virtuous? *(HBR)*
When to Ally and When to Acquire *(HBR)*

09/14 Session 3: Managing Strategic Alliances
Case: Lipitor: At the Heart of Warner-Lambert *(Michigan)*
Reading: How to Make Strategic Alliances Work *(SMR)*
The Relational View: Cooperative Strategy… *(AMR)*

09/19 Session 4: Managing Alliance Networks
Case: Star Alliance, 2000 *(Brandeis)*
Smarter Ways to Do Business with the Competition *(European Business Forum)*
Star Alliance Seeks Integration *(Korea Times)*
Star Alliance Cuts Costs to Stay Ahead *(The Nation)*
Reading: Constellation Strategy: Managing Alliance Groups *(Ivey Business Journal)*
Strategy as Ecology *(HBR)*

09/21 Session 5: Engaging in Strategic Outsourcing of Peripheral to Core Activities
Case: R&D Services at Wipro Technologies: Outsourcing Innovation? *(Wharton)*

09/23 **Project Topic and List of Group Members Due by E-mail**

09/26 Session 6: Engaging in Corporate Venturing
Case: Intel Capital: The Berkeley Networks Investment *(HBS)*
Reading: Making Sense of Corporate Venture Capital *(HBR)*

09/28 Session 7: Growing through Acquisitions
Case: Cisco's Acquisition Strategy (1993 to 2000): Value Growth… *(Wharton)*
Reading: Capturing the Real Value in High-Tech Acquisitions *(HBR)*
The Influence of Organizational Acquisition Experience… *(ASQ)*

10/03 **Project Discussion Meetings: Schedule Appointment and Bring Outline* (No Class)*

10/05 **Project Discussion Meetings: Schedule Appointment and Bring Outline* (No Class)*

10/10 **Fall Break* (No Class)*

10/12 Session 8: Managing Corporate Transformations: Acquisitions
Case: American Can Company, 1984 *(HBS)*
Reading: To Diversify or Not To Diversify *(HBR)*

10/17 Session 9: Managing Corporate Transformations: Divestitures
Case: Esmark (A) *(HBS)*
Reading: Selling your Heritage: The Causes and Consequences of Legacy Divestitures
On the Outside Looking In: Capital Market Perceptions of Legacy Spinoffs
Divestiture: Strategy's Missing Link *(HBR)*

10/19 Session 10: Turnaround Management
Speaker: Howard Brownstein; Brownstein Corporation

II. ACQUISITION SCREENING AND DEAL-MAKING

10/24 Session 11: Assessing Needs
Case: PepsiCo's Restaurants (HBS)
Reading: PepsiCo: A View from the Corporate Office *(HBS)*

10/26 Session 12: Performing Due Diligence
Case: Fleet/Norstar Financial Group: Banking on BNE *(HBS)*
Reading: When to Walk Away from a Deal *(HBR)*

10/31 Session 13: Conducting Valuation and Negotiation
Case: Cerent Corporation *(Stanford)*
Reading: Are You Paying Too Much for That Acquisition? *(HBR)*
Valuation Techniques *(Stanford)*
Stock or Cash? The Trade-Offs for Buyers and Sellers in M&As *(HBR)*
The Fine Art of Friendly Acquisition *(HBR)*

11/02 Session 14: Anatomy of a Deal
Speakers: Ian Hartman, Jeffrey Legath, and Eric Siegel; Dechert LLP

11/04 ****Project Draft Due on webCafé****

III. POST-MERGER INTEGRATION

11/07 Session 15: Embarking on Integration Planning
Case: HP and Compaq Combined: In Search of Scale and Scope *(Stanford)*
Readings: Buying Innovation: Managing Technology-Based Acquisitions *(Wharton)*
Making M&As Work: Strategic and Psychological Preparation *(AME)*

11/09 Session 16: Integration in "Mergers of Equals"

Case: DaimlerChrysler Merger: The Quest to Create "One Company" *(Babson)*

Reading: Identity versus Culture in Mergers of Equals *(EMJ)*
The Dubious Logic of Global Megamergers *(HBR)*
Do CEOs in Mergers Trade Power for Premium? Evidence from "Mergers of Equals" *(JLEO)*

11/14 Session 17: Determining Integration Strategies

Case: Vermeer Technologies (D), (E), (F) *(HBS)*
Post-Merger Integration: How IBM and Lotus Work Together *(S&B)*

Reading: Acquisition Integration: Creating the Atmosphere for Value Creation *(Book Ch.)*
Post-Merger Integration *(JBS)*
Buying Innovation: Managing Technology-Based Acquisitions *(Wharton)*
Not All M&As Are Alike – and That Matters *(HBR)*

11/16 Session 18: Managing Human Resources and Assimilating Cultures

Case: Forming a Financial Services Goliath: The MS-DWD Merger *(Wharton)*

Reading: Managing Human Resources to Capture Capabilities… *(Book Ch.)*
Revisiting the Merger Syndrome: Dealing with Stress *(M&A)*
Integrating Different Cultures and Managing Conflicts *(Book Ch.)*

11/21 Session 19: Best Practices in Post-Merger Integration

Speaker: Oliver Engert, McKinsey & Company, Inc.

11/23 ***Happy Thanksgiving!* (No Class)***

IV. PROJECTS AND REVIEW

11/28 Session 20: Project Presentations (1/3)

11/30 Session 21: Project Presentations (2/3)

12/05 Session 22: Project Presentations (3/3)

12/07 Session 23: Synthesis of Course Learnings

12/09 ***Final Paper Due***