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Strategic Corporate Communications in Mergers & Acquisitions

Diploma Thesis

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an der Rotterdam Business School
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I. Disclaimer

This research report was written as an integral part of the European Business Programme Germany – The Netherlands in part fulfillment of the diploma of the European Business Programme at the Rotterdam Business School.

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Due to confidentiality reasons, the names and contact data of the interviewed companies and the interviewees are not to be disclosed.

The report at hand was written with the due diligence. The content reflects the author's own research as well as data obtained from literature sources. However, the author does not take responsibility for any mistakes made inadvertently.

II. Acknowledgements

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III. Foreword

The development of a thesis project forms an integral part of the European Business Programme. The thesis report at hand – Strategic Corporate Communications in Mergers & Acquisitions – was submitted in part fulfillment of the diploma of the European Business Programme at the Rotterdam Business School and was developed within the timeframe of August 2002 to May 2003.

The underlying aim of the whole project was to scientifically examine a certain topic or area of interest and to reflect the theoretic, strategic and analytic skills, obtained in the course of the last four years of study. It should furthermore confirm the author's compliance with the requirements of the bachelor's degree.

Additionally, the thesis project enabled the author to gain a certain level of expertise in an independently chosen area of interest by providing a framework to accomplish detailed intelligence concerning the respective topic. The study at hand reflects the knowledge gained by primary and secondary research as well as the author's own considerations. In preparing this report, special attention was given to the critical reflection of the information available.

From a student's point of view, the thesis project was used to further develop theoretical knowledge about the specific topic, to gain first experiences with primary data research and to sharpen analytical, writing and project- and time management skills. The successful conduction of such a project is supplementarily used to concentrate and increase expertise and to build a foundation for a prospective future career.

The author hopes to provide helpful information and interesting insight into the topic of strategic corporate communications in mergers and acquisitions.

Muenster, May 2003

Tobias Herdt

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IV. Executive Summary

M&A transactions and corporate change are frequent occurrences in the globalized economies of today (c.f. section 'External growth and communication as global trends', page 1). On a global scale, led by the U.S., the European Union and Germany, M&A transactions have clearly become a global mega trend.

Despite their growing popularity, M&A transactions often fail to produce the desired outcomes (c.f. section 'M&A Failure and Corporate Communications', page 5). This is partly due to poor M&A communication.

The study at hand has several aims:

- To discuss the significance of M&A communication for the overall success of a transaction
- To establish the general determinants for the quality of M&A communication
 - The key success factors
- To examine the individual determinants
 - The factors determining the quantitative and qualitative deployment of M&A communication and its adjustment to the varying preconditions of different transactions

Secondary as well as primary data led to the conclusion that M&A communication is of high significance to the success of an M&A transaction and can impact its results. Even if M&A communication can never be the single most important factor, determining merger success or failure, corporations acknowledging the significance of best-practice M&A

communication have a higher M&A success probability and avoid opportunity costs.

As described in more detail in section 'The significance of M&A communication for the overall success of a transaction', page 51, M&A communication derives its significance from the functions it fulfills. In the course of the interviews, those functions could be identified as reputation function, manipulation function, information function, acceptance function, action function, security function, and motivation function. In the context of post-merger integration communication, especially the possibility to decrease employees' level of change resistance, uncertainty, frustration and demotivation is of particular value to transaction success.

Even if communication per-se is a qualitative, not a quantitative factor, the study at hand concludes that there are ways to assess and evaluate communication success. If communication is ranked against what communication can possibly accomplish, communication success can be defined and measured (c.f. section 'The assessment of M&A communication success', page 57).

As communication is significant to M&A transaction success and as communication success is measurable, the following part of the study focuses on general determinants and indicators, determining M&A communication success.

It is found that there are five key-success factors, essentially determining M&A communication success (c.f. section 'The general determinants: Key success factors of M&A communication', page 63):

- Communication controlling
- Communication consistency
- Strong argumentation construct
- Communication support
- Communication integration and communication teams

Those factors are of utmost importance to communication success but are independent from the structure of a given transaction. It is thus necessary to turn to a second group of factors, the individual success factors, which determine how a communication strategy has to be adjusted to the preconditions of a particular transaction in order to meet the requirements of the key success factors (c.f. section 'The individual determinants: Determinants for the quantitative and qualitative deployment of M&A communication', page 71).

With regard to the outcomes of the primary and secondary research, conducted, the author could conclude that those individual determinants are:

- Transaction size
- The desired level of integration
- The desired level of control
- The quality of the transaction

- The shareholder structure

Those factors serve as contributions or constraints to M&A communication success and determine the appropriate communication strategy.

Taking into consideration the results of this study, the author is able to give several recommendations:

M&A communication is a powerful tool to increase the success probability of M&A transactions. As its benefits by far outweigh its costs, it should be an integral part of an M&A transaction regardless of size, intention or structure.

M&A communication on the other hand, should not be overestimated. The quality of the transaction itself has to match the transaction motives. Communication can not make up for structural weaknesses of the transaction and any successful M&A communication requires the backup of strong arguments.

If M&A communication should unfold its full potential it has to be done right. There is a price to be paid if M&A communication is implemented poorly or not at all. It is thus advisable to deliberately plan M&A communication and to use the resources provided by M&A communication professionals.