Ideas in Progress

Paper Number 1

Mergers, acquisitions and technology

Denis Loveridge

November, 1996

The series constitute ‘ideas in progress’ after the notion described by I.J. Good in ‘The Scientist Speculates.’ Good also describes ideas about ideas as ‘partly baked ideas’ believing that “... it is often better to be stimulating and wrong than boring and right.” While these papers do not take this tenet as an excuse for licence at the expense of rigour, they are exploratory and the ideas may change as a theme is developed over time.
Mergers, acquisitions and technology
Denis Loveridge

1. Introduction
Mergers and acquisitions (M&A) have always been a way of developing a business and of causing a general restructuring of an industry sector. The popularity of M&A activity tends to wax and wane, but there is always an underlying level of activity. The effectiveness of M&As is a contested subject, but there is evidence that M&A activity often fails to achieve the benefits claimed for it during the heat of a takeover battle. For example, the Sunday Times\(^1\) ranking of companies in terms of returns to shareholders and similar measures, places BTR and Hanson, companies built by aggressive M&A activity, well below average. It is not the purpose here to dwell in on the reasons for this apparent anomaly. what will be explored are the kinds of information needed in M&A activity and the position that technology occupies in M&A activity.

2. Driving forces
M&A activity is always business driven; that is a simple truism. The 1970’s and 1980’s saw a significant effort in companies to integrate all their functions into a business culture, so that technology, R&D and other functions ceased to be ‘worlds of their own’ as had on occasion been the case in earlier times. The most important reasons for contemplating M&A activity are shown below;

<table>
<thead>
<tr>
<th>Reason for M&amp;A activity</th>
<th>Objective of M&amp;A activity</th>
<th>Nature of M&amp;A activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial or stock market pressure</td>
<td>Create ‘stronger’ company</td>
<td>Seek merger or acquisition by likely predator</td>
</tr>
<tr>
<td>Predator’s use of strong cash position and stock market prestige to embark on M&amp;A activity</td>
<td>Forestall bid activity by another perceived predator</td>
<td>Make pre-emptive bid for prey</td>
</tr>
<tr>
<td>Prestige in industry sector ‘requires’ predator to embark on M&amp;A activity currently ‘in vogue’ to bring about restructuring of sector</td>
<td>Acquisition of desired prey company</td>
<td>Counter bid against existing predator company</td>
</tr>
<tr>
<td>Company growth, particularly in market presence or share</td>
<td>Defence against an unwelcome bid from a predator</td>
<td>Make diversionary bid for an established prey company</td>
</tr>
<tr>
<td></td>
<td>Acquisition of identified prey company</td>
<td>Bid when prey exhausted form defence against a previous bid</td>
</tr>
<tr>
<td></td>
<td>Acquisition of target company put ‘in-play’ by stock market pressure</td>
<td>Hostile or agreed bid for target</td>
</tr>
<tr>
<td></td>
<td>Predator’s use of strong cash position and stock market prestige to embark on M&amp;A activity</td>
<td>Hostile or ‘agreed’ bids for target companies</td>
</tr>
<tr>
<td></td>
<td>Prestige in industry sector ‘requires’ predator to embark on M&amp;A activity currently ‘in vogue’ to bring about restructuring of sector</td>
<td>Hostile or ‘agreed’ bids for target companies</td>
</tr>
</tbody>
</table>

\(^1\) Sunday Times, Business Section
### In a survey conducted in 1970,

2 the dominant reason for M&A activity by a predator was given as follows, in order of importance:

- Certainty of extending market share
- Belief by the predator that the assets of the prey company were capable of being used better
- Rapid extension of market share

---

• Diversification
  • The ability to acquire the prey company cheaply and to subsequently make a profitable business from it, by a combination of better use of the assets and disposals of unwanted parts of the business
• Insulation of the predator against a bid
• M&A activity was ‘in vogue’ as the method of company growth
• For technological reasons the predator company perceived itself to be too small
• Significant mergers were taking place in the industrial sector, thus reducing the effective importance of the predator company
• Mutual agreement between predator and prey
• Elimination of a competitor

Undertaking M&A for technological reasons was rated only eighth in importance, but more important, it received only approximately one third of the score awarded to extending market share. In the context of the ‘business cube,’\(^3\) shown in Figure 1,

**Fig. 1 The ‘business cube’**

<table>
<thead>
<tr>
<th>Product</th>
<th>Process</th>
<th>Impact on company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing</td>
<td>No change from current performance</td>
<td>Company remains a player in the market but is likely to become less competitive</td>
</tr>
<tr>
<td>Variant</td>
<td>Evolution of existing manufacturing capability; company remains highly competitive</td>
<td>Extension of company's manufacturing and R&amp;D capability, allowing evolution of existing business</td>
</tr>
<tr>
<td>New generic</td>
<td>Incremental adaptation, nesting &amp; stretching of current processes</td>
<td>New sectors created in new forms of business &amp; markets needing reorganisation of company and its re-orientation</td>
</tr>
</tbody>
</table>

\(^3\) For detailed explanation see endnotes
this places strong emphasis on the top left-hand corner, where the focus is on current products, processes and markets. Initiatives for M&A activity may come from anywhere within a company, but the decision to proceed is made through extensive, guarded consultation within the company and its advisors, before being taken at Board level. At that level the concern is a deceptively simple one, illustrated in Figure 2, to decide on the basis of all advice whether the company’s business is facing a ‘crisis,’ in the Greek connotation of the word meaning ‘turning point,’ where M&A activity has a necessary role to play.

**Fig. 2 Belief space that initiates M & A activity**

Future expectations are a company’s vision of its future, developed through as disciplined a process as possible. By contrast, future reality is that state a company may be in, compared with its vision, unless actions are taken. M&A activity may be amongst those actions. These are judgmental processes in which the notion of ‘vision with discipline’ is exercised in developing future expectations. Future reality is more amenable to computation, since it will depend in part on the inherent momentum in a business. Momentum is that distance into the future that a business can travel, while maintaining successful continuity, without taking any actions, simply through the existence of product and market domination, long term supply contracts and the ability to maintain a satisfactory surplus between costs and revenue, through use of the various instruments under its control. Again from Fig. 1, part of the momentum factor lies in the extent to which simple market extension can be achieved by moving some distance toward the lower right hand corner of the cube, in so far as these steps can be achieved on the basis of current company competence.

---

4 For an explanation of the Business Cube see endnotes
5 This involves every aspect of a company’s business and includes external forces for change.
6 This is a difficult process that requires detached questioning of where a company is headed in the absence of actions to reshape its future and again includes external forces for change.
2. **What role does knowledge acquisition play in M & A activity?**

Mergers and acquisitions are now much less popular than they have been at any time during the last three decades. Even so the market value of M & A activity remains immense through the size of the companies involved. Recent examples include Glaxo-Wellcome and the formation of Novartis from Ciba-Geigy and Sandoz. Despite this, there is a growing fashion towards breaking up large enterprises, whether or not they are ‘conglomerates’ of the traditional kind. To embark on M&A activity requires a paradoxical combination of ‘self-assurance,’ if not arrogance, and humility to learn. The predator must at least display, even if that is all it is, an attitude of knowing the prey’s business better and of being able to extract more performance from its prey’s assets. In many instances this display is unjustified, if only because the process of ‘due diligence’ is extremely uncertain and can be fatally flawed.

Due diligence, knowing what might be acquired, is unlikely to uncover matters that the prey company is determined to shield from view. Some of these include:

- ‘Poison pills’ of various kinds, that may mean that valuable assets revert to a third party as a consequence of a successful predatory bid; this may apply particularly to technology or inventions
- Restrictive clauses in technology and other licences
- Acquiring assets, including a technology, that the prey company does not own or have the right to continue to use following the acquisition
- Inadequate patent cover
- Acquiring contractual commitments that are likely to damage the predator’s business
- Service contracts that make heavy commitments for the predator, but still fail to retain key personnel
- Misunderstanding the prey company’s business and its commitments, including financial arrangements, pending lawsuits and supply arrangements.
- Misunderstanding the prey company’s product and process technology and the sources of that technology
- Misunderstanding the regulatory environment of the prey company.

The characteristics of the predator's business can have a significant effect on its M&A behaviour. Broadly speaking companies are of two kinds, those that ‘assemble’ products from components and those that make ‘whole’ products; **Table 1** (overleaf) illustrates these two notions. It is acknowledged that pure examples of these two stereotypes are rare; the broad separation typifies much manufacturing and service industry activity. The nature of M&A activity in these two groups of business is likely to be influenced by very different intentions. ‘Assembly’ companies are always deeply enmeshed in networks of subcontractors and suppliers and are less likely to embark on M&A activity. Where they do, it is likely to be to take control of a troublesome supplier of key components or of key enabling technology or to become bigger where company size is an important factor in successful business continuity. Essentially, ‘assembly’ companies live off the core skills of their many suppliers, while their own core skill lies in design and integration. Only occasionally will M&A activity be resorted to as it is acknowledged to be arduous; this was recognised by Lord Weinstock on completion of the GEC-AEI-English Electric M&A activity in 1968.
### Table 1 ‘Assembly’ and ‘Whole product’ industries
- classification and characteristics

<table>
<thead>
<tr>
<th>Assembly Industries</th>
<th>Whole Product Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assembly industry companies typically:</strong></td>
<td><strong>Whole product companies</strong></td>
</tr>
<tr>
<td>1. Design artefacts from systems</td>
<td>1. Design and make complete products from</td>
</tr>
<tr>
<td>2. Define the major and minor subsystems that when assembled will make up the entire artefact</td>
<td>2. Reaction/reactor based processes that are either continuous or batch in character. Nanometre or molecular level processes</td>
</tr>
<tr>
<td>3. Make some parts of these systems but mostly subcontracts design of the subsystems to other companies</td>
<td>3. Distribution of products either directly or end-user (who interacts with general public) or to specialist component manufacturing companies which are part of the assembly industry set</td>
</tr>
<tr>
<td>4. Components for subsystems specified by subcontractors made and supplied to subcontractors by specialist companies</td>
<td><strong>Examples of Assembly Industries</strong></td>
</tr>
<tr>
<td>5. Subcontractors assemble major and minor subsystems which are supplied to assembly company</td>
<td><strong>Examples of Whole Product</strong></td>
</tr>
<tr>
<td>6. Integrates all subsystems into the final artefact</td>
<td>Bulk and speciality chemicals</td>
</tr>
<tr>
<td></td>
<td>Genetically engineered materials</td>
</tr>
<tr>
<td></td>
<td>Glass</td>
</tr>
<tr>
<td></td>
<td>Food products</td>
</tr>
<tr>
<td></td>
<td>Electronic components, especially integrated</td>
</tr>
<tr>
<td></td>
<td>Materials extraction and processing</td>
</tr>
<tr>
<td></td>
<td>Pharmaceuticals/drugs</td>
</tr>
<tr>
<td></td>
<td>Computer software</td>
</tr>
<tr>
<td></td>
<td>Optical components and toners</td>
</tr>
</tbody>
</table>

**Examples of Assembly Industries**
- Aircraft construction
- Motor vehicle construction
- Locomotives building
- Shipbuilding
- Consumer electronics
- White goods
- Retail stores
- Building construction
- Computer manufacture
- Photocopier manufacture

**Examples of Whole Product**
- Bulk and speciality chemicals
- Genetically engineered materials
- Glass
- Food products
- Electronic components, especially integrated
- Materials extraction and processing
- Pharmaceuticals/drugs
- Computer software
- Optical components and toners

**Dominant principle**
- ‘Design and integrate’ - technology based -
- ‘Design and make’ - science based - nanome-

(see Appendix) and more recently by BMW in their acquisition of Rover. By contrast companies that approximate to the ‘whole product’ notion may engage in M & A activity to acquire market share through various means. At one time there was a great temptation for these companies to acquire to gain control of extensions to their core skills. While this still happens, perhaps more so amongst the medium sized companies, there has been a growing trend, since the late 1980’s, for larger players to embed themselves in networks of agreements with small, boutique style companies that have special and complementary skills. In this way ‘whole product’ companies have introduced an element of integration into their businesses; this has happened with companies like Affymax, which has agreements with several companies that are involved with pharmaceutical chemistry. Oxford Molecular (molecular modelling), Oxford Asymmetry and Oxford Diversity fulfil similar roles in the scheme of large pharmaceutical

---

With acknowledgements to EIRMA Working Group 43
companies such as Glaxo-Wellcome, Pfizer and others. Oxford Materials is attempting to create a similar role for itself in the materials field. For years there have been boardroom debates over the desirability of acquiring small specialist companies, whose skills are essential to the predators core business, as opposed to reaching exclusive or non-exclusive agreements with them to supply particular functions or products. The conclusion is ‘that it all depends .....’ as in some instance's acquisition results from an aggravated experience between the two parties whereas in other instance's experience is just the reverse. Sometimes company policy lays down the requirement for management control in all circumstances. The most risky circumstances occur when a company decides to attempt to diversify into new forms of business through M&A activity, taking the business toward the bottom right hand corner of the ‘business cube.’

3. Background to M & A activity

Since the late 1960’s, the environment in which business operates has become more complicated. Sometimes the trend towards complication has been more or less predictable, but on other occasions there have been discontinuities that have mostly taken the business world by surprise. In this period M&A activity has been through at least two periods of growth and decline. Perhaps the first period culminated in the GEC-AEI-English Electric combination of an acquisition and a merger. About that time state sponsored mergers were also in vogue in the UK through the activities of the Industrial Reorganisation Corporation (IRC), which promoted the formation of the British Motor Corporation and other mergers. However, at the same time the activities of Slater, Bentley and others amounted to simple asset stripping.

The 1970’s were the years in which the seeds of the current European difficulties were sown as social legislation endowed people with ‘rights’ that were intended to be inalienable. Similar changes were occurring in the USA as articles with titles such as “From privileges to rights” indicated. However, it was also the time when Japanese exports began to make severe inroads into Europe and America, to the detriment of American financial stability. The decade also saw the birth of new management ‘gurus’ whose message was characterised by notions encapsulated in the phrases ‘stick to the knitting’ and ‘down sizing.’ The 1980’s were essentially years of depression, despite the apparent prosperity of the midyears, that provided the opportunity for radical change in manufacturing industry in the UK and the USA, but not in mainland Europe, where economic activity seemed invincible, at least in Germany. M&A activity was the instrument of radical change in manufacturing, since it enabled ‘managers to manage,’ which usually meant application of the notions of ‘sticking to the knitting’ and ‘down sizing.’ The conglomerate companies, as they came to be called, were the major

---

8 For example, social security arrangements and the financial components included in them.
9 These included Peters & Waterman, Moss-Kanter, the Conservative party think tank and others.
10 Constrain a company’s activity to its historical core business and avoid risks that go with diversification in particular.
11 Shedding as many of the work force as possible and putting many enabling services out to contract in order to reduce a company’s cost base.
12 Collections of unrelated businesses that were bought cheaply and managed by simple financial controls. The businesses were often ‘asset stripped’ and subsequently resold giving an apparently good return to shareholders.
instruments of these changes. The frenzy of M & A activity was largely confined to the UK and the USA and, in the UK at least, for good or ill destroyed swaths of manufacturing capability, particularly during the first stage of the depression in the early 1980’s. However, as McDonald indicated in 1986 the seeds of the dangers of the late 1980’s and early 1990’s were sown in the late 1960’s. To quote McDonald, who coined the term *anorexia industrialosia* to describe the excesses of down sizing, “…. the then [late 1960’s] current ‘whiz-kids’ were milking dry the brilliant endeavours of past generations of entrepreneurs, without any attempt to invest in new products (or processes or markets). Rationality to them meant only short-term results and profits on a product by product basis ... Regard for competitive position, market share, ... research and development ... seemed irrelevant .... this approach, all in the name of rationality and prudent management .... more than any other, has caused Britain’s economic decline.” In the 1980’s the conglomerates (and others) returned to this outdated philosophy, claiming to be returning ‘shareholder value,’1 a claim that was false and has recently been shown to be false. McDonald’s words have a final ironic ring as the conglomerates fail and are themselves broken up in an endeavour to embark on the real business of ‘making money from making things’ rather than ‘making money from money.’

M&A activity has always been complicated though it has often been presented in simplistic terms; for example, the necessity to ‘grow by acquisition of market share.’ How complicated M & A activity is can be appreciated from the Venn diagram below, which shows that any company lies in the intersection of the six themes of the STEEPV13 set.

Fig 3 Illustration of intersections in M & A activity

---

13 Acronym for Social, Technological, Economic, Ecological, Political and Values
M&A then requires the bringing together of two entities for which there will be two different and offset Venn diagrams. The bigger the offset, the greater will be the complication of merging the two; this is illustrated in the second Venn diagram below.

**Fig. 4 Illustration of the ‘offset’ present during M & A activity**

The nature of this complication can be illustrated in the following diagrams; the six forms of knowledge close to a company’s successful continuity are:

- **Business performance**: not only its own performance but also the expectations of and actual performance of the sector as a whole.
- **Behavioural knowledge**: this relates to a company’s understanding of the market processes in its sector (including buyer behaviour) and the characteristics of products to meet social expectations.
- **Ethical knowledge**: this is intimately related to a company’s notions of how its activities are perceived by the polity.
- **Regulation, law and directives**: these relate to constraints on a company and to its understanding of intellectual property rights, copyright, trade marks and patenting.
- **Theoretical knowledge in science and technology**: this relates to a company’s understanding of its competencies in process and saleable products whatever the form of the artefact.
Theoretical knowledge relating to ecology: this covers more than environmental matters and extends into notions of sustainable development as they influence successful continuity of a company’s business.

The first diagram is indicative of the matters involved; the second illustrates the complication of the offset.

It is uncertain how far into this complex web of interacting activities due diligence can
and does reach. Equally, it seems likely that whereas one or two areas may be focused on strongly, there may be others, such as ethical knowledge or knowledge of the regulatory and legal environment, that may receive less attention during M & A activity. Perhaps, notions relating to sustainability receive least attention at present as its concepts are only now beginning to enter the corporate vision.

The alternatives open to companies that need to acquire new technologies are14:

- Internal development
- Sponsored external development
- Outright purchase from an external source
- License agreement with an external source
- Technology interchange with an organisation with complementary technologies and needs
- Joint venture with another company to develop the technology
- Participation in pre-competitive collaborative research programmes
- Formation of a strategic alliance with another company.

All of the above options are open to any industrial organisation. The option chosen will depend on many factors ranging from company policy in M & A activity and joint venturing to the level of maturity or novelty of the product and process involved. Figure 1 illustrated how a company's policies evolve as they move away from existing business areas. In the extreme case, entry into an immature market or a market new to a company has many inherent risks. The company may have little or no relevant in-house product or process expertise and know-how. Indeed, in immature markets both the product and the process technology may be in their infancy. In this context, an interactive15 attitude may be needed to identify the best centres of accessible expertise, as the company will be working in unfamiliar territory (bottom right hand square of the matrix shown in Fig. 1). To encompass these uncertainties, companies can use a mixture of ways of increasing their in-house competence and capability, as follows:

- By a general drive to increase internal competence multidimensionally
- To focus attention in specific areas of existing expertise that are contiguous with the new areas of expertise
- To go outside its normal sphere of activity to capture knowledge unrelated to existing in-house expertise, but necessary for entry into the immature business being developed

The first option, often perceived as an essential step, is not always very effective, being likely to consume large resources for marginal gains. The second option is likely to produce important gains at a slower, but less risky rate. The third option may produce the fastest gains, but the risks of misjudging where the knowledge is to be found, who the experts are and how to acquire the knowledge, are ever present. For a company to embark on any one option, or a compatible, logical combination of them, is better than 'waiting for something to turn up.'

Extending a company's existing business may well require growing or acquiring

14 With acknowledgement to EIRMA Working Group 43.
15 A term due to Ackoff that defines a company attitude as ‘future making’ rather than being reactive.
technological capability that is new to the company (but not necessarily new in the sense of being leading edge); the development of new businesses requires mandatorily the repeated acquisition of new skills and capabilities. Learning about new technologies cannot be left to chance, but requires constant attention and a well worked out set of principles concerning the acquisition of new, and leading edge technologies from external sources. While the general principles of technology acquisition are well understood, including the role of M & A activity, there are always special points relating to intellectual property and licensing that will need to be understood. What applies in one industry does not necessarily apply elsewhere.

Inevitably there are many different terms describing technologies that might be acquired from an external source. For example, *genuinely new* technology arises from invention and scientific breakthrough; it will be new to *any* company when it first appears. Technology that is *new to a company* may have been in use for many years, but had not been needed by a company before. Companies largely buy in *enabling* technology; licensing may or may not be required. These technologies enable a company’s business and include process control equipment, instruments of all kinds, personal computers, communication systems and so on. All are readily available as products or services on the open market.

*Emerging technology* is similar to *genuinely new* technology, the term implying only a time difference in the state of the technology’s development. Perhaps more important than the nuances of meaning between the various terms, is that most companies depend crucially on a *core* of technologies; these may amount to no more than 3-5% of a company’s technological armoury, but a company must ensure mastery and, if possible, control of them, if it is to maintain or improve its competitive position in its fields of business.

What if a company has to acquire technology? It requires acute perception to recognise a *genuinely new* technology and see how can be used, and will prove to be either a threat or an opportunity, with respect to a company’s business. Usually, that perception occurs when applications *emerge* embodying a *genuinely new technology*; the need to acquire the technology then becomes more pressing and more obvious. Technologies *new to a company* are often needed to improve many aspects of a company’s business where the technology in question was simply not used previously. In the context of diversification, there may be little to differentiate between the value of acquiring *genuinely new, emerging or new to the company* technologies.

New businesses and product extensions to existing businesses, involve science and key technologies that are unfamiliar. The intermingling of the sciences in one technology and/or product is now very common, adding a new dimension to technology acquisition. Product complication is taking place against a background of increasing regulatory activity; this too needs to be understood, as it has implications for the characteristics of all products, but more so for those that embody unusual combinations of science and technology. It is uncertain whether these matters will be revealed by due diligence during M & A activity.
4. Use of M & A in technology development

How ought M & A activity to be involved in technology development? Given that M & A activity is always driven by business needs and that technology does not figure highly in the ranking for M & A activity, the simplistic response might be ‘not much if at all.’ There are good reasons to discount this view. The highest ranked reason for M & A activity is the certainty of extending market share (provided the bid is successful), which indicates the importance of relative size in M & A activity. Where the prey company is much smaller than the predator, it can be inferred that increasing market share is not likely to be why the predator embarked on M & A activity, with its associated risks. The reasons for the predator’s action may then be the beginning of diversification or the acquisition of an important technology having the potential (a) to enlarge market share or (b) to change business directions (or all of these).

The acquisition of a small (or smaller) company for either diversification potential or for its special technology, is not a straightforward business deal. The acquisition itself may be no more risky than one to acquire market share (it is usually less so), but the post-acquisition absorption is rarely smooth. The business culture of a small company will be profoundly different to that of its much larger predator a situation not often understood (or even recognised) by large company managers. Some of the pitfalls are:

- Highly unusual service contracts of key personnel
- Reward packages that are at variance with those of the acquirer and cannot be readily integrated into the acquirer’s structure
- Levels of responsibility, freedom of action and authorisation that are foreign to the acquirer and cannot be accommodated in the acquirer’s structure and procedures
- Exposure of small company personnel to a far wider range business issues than that of the acquirer’s managers, and possibly their Board members
- Decision making, by small company personnel, in a more direct way than is compatible with that of the acquirer’s procedures
- Freedom in small companies, to change the direction of technology programmes and development at short notice
- Ability for small company personnel to act with scarce resources
- Greater self reliance and the necessity to act on one’s own amongst small company personnel.

In the realms of a company’s strategy for technology, the above down-to-earth factors may seem to have little place. However, this is far from true, as each of them can hamper the successful consummation of the acquisition. Some are virtually fatal to success and may wreck the chosen strategy. Retention of key personnel, in whom both the codified and tacit knowledge and capability reside, is particularly problematic. First, they are made wealthy by the acquisition itself and second, they are the people most likely to reject the (bureaucratic) culture and procedures of the acquirer. Worse still, they often leave and shortly start another small company, such is the nature of the entrepreneur, that may create technology that threatens the acquirer’s gains. In any event, the acquirer will be less certain of achieving the gains anticipated during the bid once the key personnel have departed.
None of the foregoing implies that the suggested division of intent, between large, size dependent M & A activity and the acquisition of a small company by a large one, is clear cut. To secure growth in market presence, M & A activity by large companies may also be predicated on the prey company bringing product extensions, process technology and other supporting technologies, to the acquirer. However, that is how these additional factors should be seen, as subsidiary factors to support the main motive of increased market presence for the acquirer. It would be revealing to understand why, when the acquirer unexpectedly finds a small, technologically advanced subsidiary, lying in a new and unexpected market sector, buried in the acquired company, it is sometimes kept and more often sold. It is known that, on occasions, these disposed of companies go on to become ‘jewels’ in their own sector; as with so many other outcomes of an acquisition, so much depends on internal power broking during the absorption of the prey company. In large company acquisitions, the integration of the prey’s functions into those of the acquirer are mostly those of rationalisation and the removal of unnecessary duplication of effort and facilities. On most occasions, rationalisation is based on attention to the four regions defined by the upper left hand corner of the ‘business cube,’ illustrated in Fig. 1. Rarely does the acquisition have the intention of taking the acquirer into the ‘radically new’ and ‘new generic’ regions of the cube. The acquirer is unlikely to be interested in doing more than strengthening competence in core technologies and often this is not expected. Particular effort is needed to ensure that the prey’s technology is properly assessed and adopted or adapted, as appropriate, to the acquirer’s needs, since this was not the main objective of the acquisition.

5. Conclusion

The business drive behind M & A activity determines the objectives of any acquisition. The dominating factors are never clear cut, but are likely to be related to the relative size of the predator and its prey. The lessons from ecology are clear; large carnivores rarely feed on very small prey for their sustenance, but depend on their similarly sized prey to provide essentials for their continued existence. There are always exceptions. Large companies do on occasion acquire very small prey to import some specialised knowledge that will increase their sphere of influence. However, this is a much more risky tactic than is often revealed, as the essentials needed to retain and benefit from that knowledge often slip through the acquirers hands like quicksilver. In the corporate world relative size is a crucial factor to successful understanding of another company’s way of working and importance in the business field; large has difficulty understanding small and vice versa. Business policy and strategy drives M & A activity; technology is rarely the driving force, but has to be seen as one of the many factors involved in M & A activity. The course of the acquirers technology programmes post an acquisition will depend on the zone of the ‘business cube’ at which the acquisition is targeted more than any other cause.