



MERGERS & ACQUISITIONS, LAW AND INNOVATION

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Beneficial and harmful aspects of takeovers for the innovation process

Master's Thesis

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Abstract

This study examines the effects of mergers and acquisitions on innovation by having a look at the corporate culture of companies after taking part in a M&A process. In theory, M&A transactions are a reasonable idea to achieve firm growth and to foster future innovation by acquiring startups and by integrating promising disruptive ideas. Nevertheless, research has shown that most M&A deals fail due to unsuccessful integration of different cultures of the merging parties. It has been exposed, that the “right” corporate culture is a crucial component for growth and innovation success. Therefore, as a measure of innovation, this study had a look at the Top 10 merging companies and Top 5 startup acquisitions by deal size in 2012 and analyzed their corporate culture and strategy of integration. Findings yield that successful companies do not enforce the integration of different cultures; instead, they allow acquired entities to operate separately. Additionally, it can be beneficial for future innovation to keep key employees and the founder of a company within the firm. Therefore, the study shows a positive relation between the level of integration and merger success.

Keywords: Mergers & Acquisitions, Innovation, Law and Innovation, Corporate Culture.

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I. Introduction

Mergers & Acquisitions (M&A) are a decisive and crucial event in the lifetime of every company, as they introduce new possibilities, chances and paths for entities e.g. to change the strategic orientation or to operate in new markets and industries.

It is evident that M&A transactions have been used since years as a common and natural instrument to achieve firm growth and expansion, but they became also a strategy for companies to promote and further develop their innovation process.

Today innovation itself and the ability of staying innovative on a competitive edge have become more and more important for corporations. It has shown that the increasing demand for companies to do so is triggered by several factors, stating the most important one like new technological trends, increasing technological complexity as well as the explosion of knowledge exchange, the availability of big data and the shrinking life cycle of products. These circumstances were a driving force for a number of innovation-driven mergers and acquisitions in the last years. Growing competition between corporations and the background of globalization further pushed these developments.¹

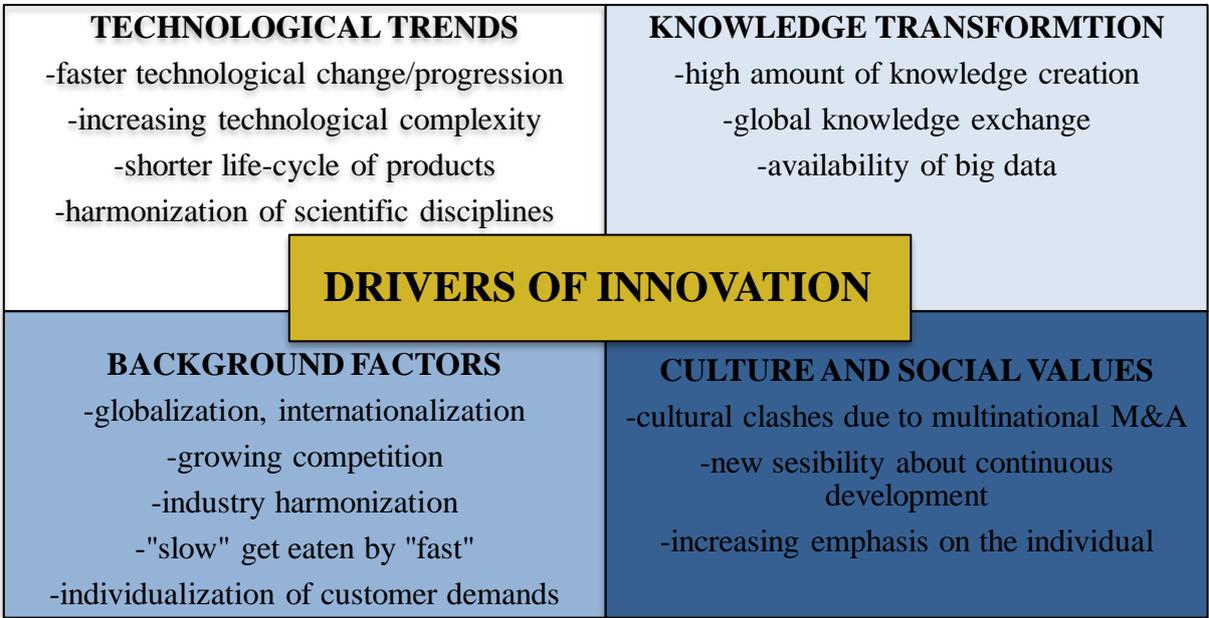


Figure 1: Factors of innovation according to Bannert-Thurner

¹ Valerie Bannert-Thurner, *Mastering The Acquirer's Innovation Dilemma* (1st edn, Palgrave Macmillan 2005), p.3.

However, there can be a problem. The wish of keeping up with innovation and disruptive technology does not imply that companies are able to do so with their own financial resources, technological skills, creative mindset, knowledge or time. A company's ability to be innovative is limited. M&A transactions can be the solution. The barriers of innovation can be overcome by acquiring the missing resources from outside the firm, through mergers and acquisitions.²

Big companies like Google, Apple, Microsoft, Yahoo and Amazon have used M&A transactions as a natural way to further expand and develop their workforce and to introduce new products and services. Today, for firms, the "acquiring-innovation-strategy" has become the "modus operandi".³

Nevertheless, maintaining innovative on a competitive edge is difficult and data shows that it is not unexperienced that merged companies fail in the future. Indeed, a Boston Consulting Group analysis of publicly listed companies found out, that more than half of mergers and acquisitions transactions end up destroying value for the acquirer in the longer term, reflected in the company's share price.⁴ There are plenty of good reasons to acquire another firm, but after an acquisition, it can be hard to keep firm growth and the culture of innovation alive.

Therefore, an interesting question is, what separates successful M&A transactions from failing ones and how do M&As really affect the process of innovation? Even more important, is it possible to anticipate the precise impact of mergers and acquisitions on innovation?

The motivation for this master's thesis is based on the limited research that has been done in the field of measuring the impact of takeovers on the future innovation-process and evaluating reasons why some companies successfully engage in future innovation after a M&A, while others do not. Knowing about the importance of corporate culture, this thesis will try to build and establish a connection between successful innovation and the right integration of different cultures after a takeover. Furthermore, I want to evaluate the reasons for acquiring innovation and will discuss the challenges of the integration process when acquiring new, innovative startups. Additionally, in a small excursus, I will have a look at the interaction of law and innovation in the field of important merger regulations.

² Valerie Bannert-Thurner, *Mastering The Acquirer's Innovation Dilemma* (1st edn, Palgrave Macmillan 2005), p.3.

³ Victor Luckerson, 'How Google Has Perfected The Silicon Valley Acquisition' (*Time.com*, 2015) <<http://time.com/3815612/silicon-valley-acquisition/>> accessed 6 April 2017, p.1-2.

⁴ Adam Bluestein, 'Keeping Innovation In The Mix After The Merger' [2014] *INC. Magazin*, p.1.

The main research questions are the following:

- Is innovation through acquisition a reasonable idea?
- Is there a link between M&A and innovation?
- Will mergers and acquisitions be harmful or beneficial for the future innovation-process in a company?
- Are there ways to keep innovation alive after taking part in a M&A?
- Do merger regulations foster (future) innovation in a company?

The structure of the thesis proceeds as follows: Section II gives an overview of the current definition of innovation and of the understanding of disruptive developments. The section will discuss the mergers and acquisitions waves occurring in the U.S. and Europe and possible M&A trends triggered by technological inventions. Furthermore, section II provides several reasons for companies to acquire innovation and emphasis why innovation is important for firms to achieve growth and competitive advantage. The section is also going to present the integration process of innovation and the challenges a company will face when integrating new technologies and disruptive startups. In the end, section II will summarize the traditional studies on the effects of M&A on innovation and will give a reasoning for taking a different approach for the event study performed in Section III. Section III presents the methodology of the event study and starts with an explanation why the selected method of valuing innovation was chosen. The presented arguments will be illustrated with relevant samples of current M&A transactions. In this section, the analysis will be performed and the results will be presented. Section III also provides a guideline of “how to keep innovation alive” after a merger or acquisition. In Section IV, a small excursus will show the relationship of law and innovation in legal fields that are important when talking about mergers and acquisitions. The final section, section V, summarizes the main findings and ends the thesis with a conclusion.

II. Theory

2.1 Definition of Innovation

*“Innovation is this amazing intersection between someone's imagination and the reality in which they live. The problem is, many companies don't have great imagination, but their view of reality tells them that it's impossible to do what they imagine”.*⁵

-Ron Johnson-

Today, we use the word “innovation” in a self-evident manner. Innovation, the aspect of staying innovative on a competitive edge and the theoretical answer for achieving and sustaining economic growth, has become more and more important in the lifetime of a company and has shown to be crucial to survive on the open market. Innovation makes it possible for entities to be “one step ahead” of their competitors. Although undeniable that innovation is a very elusive subject and therefore hard to define, the importance of innovation for every company and also the impact of innovation on policy making, makes it necessary to have a closer look at the definition and scope of the word.

A simple and easy way of describing innovation is *“the process by which individuals and organizations generate new ideas and put them into practice”*.⁶ Having a closer glance at the word, a business dictionary will tell us that innovation is *“the process of translating an idea or invention into a good or service that creates value or for which customers will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need”*.⁷ When defining innovation, it is especially important to take the exceptional dynamics of these days into account, the continuously changing markets and their likely evolution in the future. Following the broad understanding of Joseph Schumpeter, an authoritative scholar in the field of economy, innovation is defined as *“the introduction of new goods (...) new methods of production (...) the opening of new markets (...) the conquest of new*

⁵ 'Ron Johnson Quotes' (BrainyQuote, 2017)
<<https://www.brainyquote.com/quotes/quotes/r/ronjohnson396227.html>> accessed 17 March 2017.

⁶ Massimiliano Granieri and Andrea Renda, *Innovation Law And Policy In The European Union, Towards Horizon 2020* (1st edn, Springer 2012), p.3.

⁷ 'What Comes After Those Ellipses?' (BusinessDictionary.com, 2017)
<<http://www.businessdictionary.com/definition/innovation.html>> accessed 17 March 2017.

sources of supply (...) and the carrying out of a new organization of any industry”.⁸ There is no one-definition-fits-all solution, but there is an upcoming and growing consensus that innovation does not refer exceptional to new products that enter into the market. For the understanding and definition of innovation, two important ideas should be marked. First, the creation or reorganization of new resources, understandable in the broadest possible sense, and second the fact that these resources will contribute to progress.⁹

Nowadays capturing a conclusive definition of innovation has become even harder. New mechanism of innovation arise as innovative progress takes place inside and outside corporations and industrial sectors and branches operate more and more online and become global in a wholly new understanding. Today users become innovators and can achieve something as disruptive and progressive as big entrepreneurs. For being innovative, of course also depending on the market, a good idea, creativity and a dose of luck count as much as the possibility of making use of large R&D investments. Big data is another especially important factor that influences the activity of innovation. The amount of big data available today, paves the way for new opportunities and chances for innovators to create products that fit and anticipate the individual societal needs.¹⁰

2.2 Definition of disruptive Innovation

The definition of disruptive innovation is highly influenced by “Christensen’s Disruptive Innovation Theory”. Therefore, the term is qualified as a procedure that challenges already established businesses in a successful manner and significantly affects the function of a market e.g. by submitting more-suitable functionality at lower costs. The invention of the Internet is a good example for creating something disruptive, as it significantly changed the way corporations did business and companies, that did not adopt to the innovation “Internet” were left behind.¹¹ Compared to sustaining innovation, disruptive innovation is meant to change industry structures, modify technologies, and develop new business models and other

⁸ Massimiliano Granieri and Andrea Renda, *Innovation Law And Policy In The European Union, Towards Horizon 2020* (1st edn, Springer 2012), p.3-4.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Clayton M. Christensen, Michael E. Raynor and Rory McDonald, 'What Is Disruptive Innovation' [2015] *Harvard Business Review*, p.3.

characteristics. Being disruptive means the incentive of creating additional value through the creation of something meaningful and new.¹²

When having a look at the following paper, the stated evaluation about the definition of innovation and disruptive innovation should be taken into account, to get a better understanding of the interaction between mergers & acquisitions and innovation and how innovative developments can disrupt our understanding of business models and policymaking.

2.3 Mergers and Acquisitions Waves

This section is supposed to give a brief summary of M&A waves in economic history.

2.3.1 Mergers & Acquisitions Waves over Time: Wave Pattern in the US

It is generally acknowledged to distinguish between five big waves of takeovers. The peak of the first wave was reached in the 1890s as a result of economic expansion that had followed a period of economic depression. A high rate of today's giant U.S. corporations were formed through a concurrent consolidation of producers within industries, an important phenomenon of the first wave. Additionally, an essential number of companies and industries faced restructuring strategies and were transformed into near monopolies by merger, a reason why the first wave is also described as “merging for monopoly”. The second takeover wave of the 1920s was a smaller wave, considering its impact. Market monopolies, which resulted from the first wave, rose public concerns, leading to stronger antitrust enforcement. This wave is also known as “merging for oligopoly” as it presented a step towards oligopolistic structures in the area of many industries.¹³

The third M&A wave of the 1960s is also described as “merging for growth” and resulted from the oil crisis which was followed by a recession. U.S. corporations shifted towards more diversification in their structure, also stricter antitrust regulations were proclaimed during that time. The 1980s were indicated to present the fourth takeover wave, which was the outcome of inefficiencies created by the previous waves. The time of the fourth wave was affected by a

¹² Evangelos Simoudis, 'Silicon Valley'S Role In The Re-Invention Of The Disruptive Corporate Innovation Model' (*Re-Imagining Corporate Innovation with a Silicon Valley Perspective*, 2014) <<https://corporate-innovation.co/2014/04/14/silicon-valleys-role-in-the-re-invention-of-the-disruptive-corporate-innovation-model/>> accessed 28 March 2017, p.2.

¹³ Sudi Sudarsanam, *Creating Value From Mergers And Acquisitions* (2nd edn, Pearson Education Limited 2010), p.16-18.

series of new developments on the M&A market e.g. the appearance of hostile tender offers, further changes in antitrust policy, the introduction of new financial instruments and growing technological progress. A trend to focus on the core of the business and towards smaller and more nimble firms occurred as well.¹⁴

The fifth mergers and acquisitions wave of the 1990s is of special interest for the discussed topic, as one of the elements that triggered the wave has been innovation. This wave was characterized by a number of factors. Of special importance was the increased use of equity as an instrument of payment, U.S. stock market growth, cost-cutting expansion and the exploitation of over- and undervaluation. Major drivers of the 1990s wave were technological innovation, globalization of products, services and capital markets, the financial bull market and deregulation and restructuring of big industries.¹⁵

2.3.2 Mergers & Acquisitions Waves over Time: Wave Pattern in the EU

The phenomenon of a high increase of takeover activity was also experienced outside the U.S. and appeared to be a global trend, therefore also in Europe.

Compared to the U.S. market we can distinguish between two M&A waves, one during 1986 and 1992 and another one between 1996 and 2002. The period in which the takeover activities took place, was a troubled and eventful time in the history of Europe. Crucial events in the area of politics, economics and in the working area of social institutions, which had the incentive to further integrate the EU, contributed to the M&A activity e.g. the Single Market Initiative, the European Monetary Union and the introduction of a single currency within the EU. Important factors of influence were also historic events like the end of the Cold War and the collapse of the Berlin Wall, which were accompanied by the promotion of deregulation and privatization in EU member states.¹⁶

¹⁴ Greg N. Gregoriou and Luc Renneboog, *International Mergers And Acquisitions Activity Since 1990* (1st edn, Elsevier 2007), p.2-3.

¹⁵ Bernard S. Black, 'The First International Merger Wave (And The Fifth And Last U.S Wave)' (2000) Volume 54 *University of Miami Law Review*, p.799-811.

¹⁶ Sudi Sudarsanam, *Creating Value From Mergers And Acquisitions* (2nd edn, Pearson *Education* Limited 2010), p.22-26.

2.3.3 Mergers & Acquisitions Waves and Innovation

Considering the macro level, it can be said that the aspiration for technical change was one of the key incentives that caused the most lately M&A waves. Having a look at the micro level, it has been found, that the tendency and commitment to engage in mergers and acquisitions increases with a firm’s research and development intensity. It is undeniable that the incentive of getting and staying innovative encourages M&A activities, as companies acquire assets that are vital for the realization of their innovation strategy.¹⁷

Trends show that the number of M&A activity has increased worldwide since 2002 on a continuing base. Especially in areas such as healthcare, biotechnology and technology, the volume of takeover activities is growing. These sectors have one thing in common: For all of them, innovation and the requirement of staying innovative is a key factor for competitive advantage. This is especially true for the high-tech industry. Today, we are living in a century, where the life cycle of high-tech products is steadily shortening and new disruptive and innovative products are introduced to the market on a regularly basis. Because in these sectors R&D costs are enormous, it becomes harder and harder, especially for small companies, to survive when working independently. For fostering future innovation and for acquiring the essential know-how, mergers and acquisitions can present a decent solution.¹⁸ Without doubt, today’s trend is harmonization and innovation.

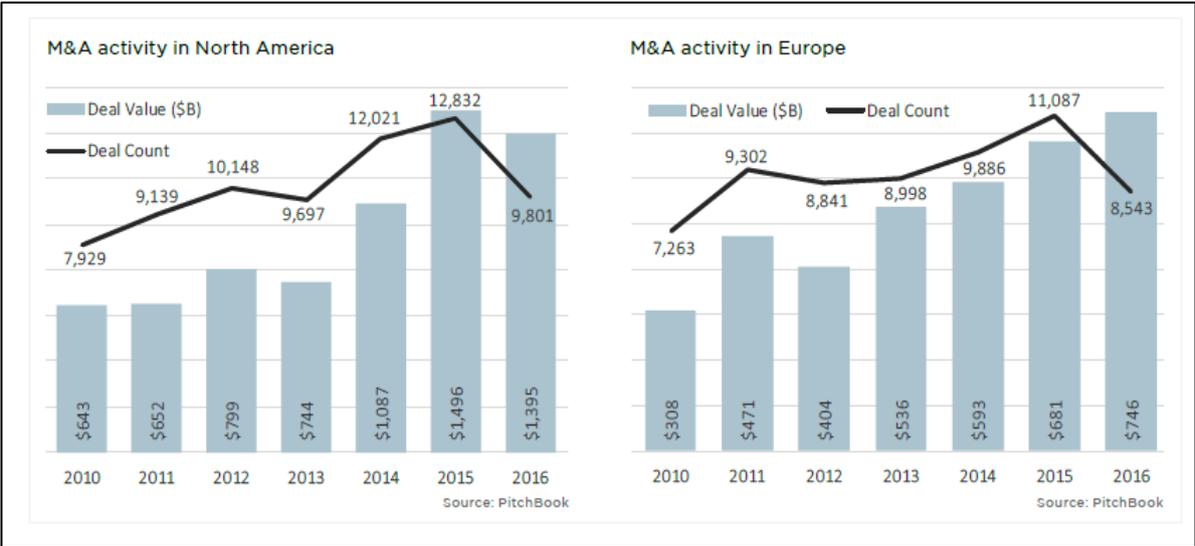


Figure 2: Global M&A activity since 2010 (Source: PitchBook datagraphic)

¹⁷ Bruno Cassiman and Massimo G. Colombo, *Mergers & Acquisitions: The Innovation Impact* (1st edn, Edward Elgar Publishing 2004), p.1-2.

¹⁸ Ibid, p.14-17.

The increasing takeover activity in the United States, Europe and Asia may be seen as becoming the sixth/third M&A wave. It is certainly too early for stating factors and presenting conclusions what triggers the recent M&A activities and trends. Events of influence could be the happening of September 11, 2001, which caused the delay in some transactions, the fact that governments are increasingly offering and selling shares in big national firms and also private equity investments in certain industries.¹⁹ Indeed, the motives for companies to take part in mergers and acquisitions are highly diversified and differ from industry to industry.²⁰ Stating with certainty that innovation and technological change/ improvement are of great importance for M&A decisions today, future trends will show which role innovation will play in upcoming takeover waves.

2.4 Reasons to acquire another Firm: Innovation

-The most reliable sources of unexpected growth in revenues and margins are disruptive products and business models-²¹

2.4.1 What is the Use of acquiring Innovation?

As stated before, M&A transactions are an important commitment for any entity as these events will affect every aspect and facet of their body and future organization. Furthermore, they are a common strategy to improve not only a company's profitability, growth, market share and stock price, but also its future innovation process e.g. by using acquisitions to "buy" disruptive, game-changing inventions and technologies developed by another firm.

Today the M&A "motor" runs and big companies, in their wish to get more creative, continually search and skim the market for highly promising startups. We can call that an "*innovation-through-merger/acquisition strategy*".²² Even corporations which do provide the

¹⁹ Greg N. Gregoriou and Luc Renneboog, *International Mergers And Acquisitions Activity Since 1990* (1st edn, Elsevier 2007), p.5.

²⁰ Bruno Cassiman and Massimo G. Colombo, *Mergers & Acquisitions: The Innovation Impact* (1st edn, Edward Elgar Publishing 2004), p.21.

²¹ Clayton M. Christensen and others, 'The Big Idea: The New M&A Playbook' [2011] Harvard Business Review.

²² Jim Price, 'Why Innovation Through Acquisition Is Such A Darn Good Idea' (*Business Insider*, 2012) <<http://www.businessinsider.com/innovation-through-acquisition-2012-10?international=true&r=US&IR=T>> accessed 21 March 2017, p.1.

market regularly with new ideas and which are highly active in the field of being technological innovative, so to say firms with a strong “innovation DNA”, like Apple, Google, Facebook and 3M, often acquire (further) innovation for a couple of good reasons.²³ This imposes the question, why exactly acquiring innovation through M&A is such a good idea to maximize the value of a corporation in long-term.

There are different reasons, why companies acquire and “buy” innovation and why they want to become a disruptive innovator on their own. We can distinguish between different types of innovation-driven mergers and acquisitions:

Generally: Careful and sober-minded way of reaching new and promising areas. Often, the real challenge is not to find potential sectors of revenue and profit growth, but to do so without jeopardizing the existing organization. Companies often reach the decision that they have to operate in new and promising fields, but these areas show to be fairly unproven. Multiple experiments will be needed, which might bleed cash and resources for a long time, if not years. On a quarter-to-quarter income statement basis, it will be too expensive for a firm to run more than one risky project of that kind. The solution can be an entrepreneurial startup. The experimental project can be performed by the startup company, using its own energy, time and cash to find out which innovative business model turns out to be beneficial and proven. By that, the technology and market risk will be evaluated and once the winning project is sort out, the company can buy the winner with capital off its balance sheet.²⁴ This strategy can be of special interest for big corporations, which have an enhanced commitment to be reliable and trustworthy and therefore will have a problem with promoting inventions that are not proven. They do not know if the idea will work and they do not want to take the risk of losing their reputation. These companies are willing to wait for someone else doing the job and proving that a new thing will work out. In return, big firms are willing to compensate the benefit of not carrying the risk, with money.²⁵

²³ Evangelos Simoudis, 'Acquiring Innovation' (*Re-Imagining Corporate Innovation with a Silicon Valley Perspective*, 2014) <<https://corporate-innovation.co/2014/07/07/acquiring-innovation/>> accessed 22 March 2017, p.1.

²⁴ Jim Price, 'Why Innovation Through Acquisition Is Such A Darn Good Idea' (*Business Insider*, 2012) <<http://www.businessinsider.com/innovation-through-acquisition-2012-10?international=true&r=US&IR=T>> accessed 21 March 2017, p.1.

²⁵ Matt Vella, 'Innovation Through Acquisition' (*Bloomberg.com*, 2008) <<https://www.bloomberg.com/news/articles/2008-02-29/innovation-through-acquisitionbusinessweek-business-news-stock-market-and-financial-advice>> accessed 29 March 2017, p.2.

Acquisition of new disruptive products, game-changing technologies and disruptive business models developed by another firm. One reason why companies are highly interested in disruptive innovation is, that in order to satisfy their shareholders by increasing their growth rate, companies notice that they have to establish new products and services under new implemented enterprise technologies. They want to get a wider portfolio, have the latest technology and the most lucrative business model. To achieve that, takeovers are a common model. Especially early stage companies and startups can be an economic and cost-efficient way to access disruptive ideas, innovative technologies or new and promising products developed by these firms. All of this can be achieved in a much faster way and at lower costs than building it in-house. Thus, even firms like Google or Twitter make use of takeover strategies on a regularly basis, because acquiring disruptive innovation is faster than building products in some areas on their own. Another reason is, that companies often fail while attempting to foster innovation within their firm and therefore consider a M&A transaction necessary to jump on the bandwagon of innovation.²⁶ Summarized, it can be said that it can be beneficial to wait for somebody else being creative and innovative, building a business around that disruptive idea and then absorbing the whole model within a M&A transaction.²⁷

M&A as an effort to get creative people. Takeovers e.g. acquisitions of startups, can be used as a way to get new talents, employees or a creative group of people, to further profit from their disruptive visions and mindset. This can provide a firm with consistent and lucrative output.²⁸

Innovation/further development of existing products and business models. M&A transactions can be a solid way to further improve and provide innovation around already existing products and business models of a company. For such a takeover, any stage company will be equally suitable e.g. early stage startups, as well as later stage private companies. An

²⁶ Evangelos Simoudis, 'Acquiring Innovation' (*Re-Imagining Corporate Innovation with a Silicon Valley Perspective*, 2014) <<https://corporate-innovation.co/2014/07/07/acquiring-innovation/>> accessed 22 March 2017, p.1-2.

²⁷ Matt Vella, 'Innovation Through Acquisition' (*Bloomberg.com*, 2008) <<https://www.bloomberg.com/news/articles/2008-02-29/innovation-through-acquisitionbusinessweek-business-news-stock-market-and-financial-advice>> accessed 29 March 2017, p.2.

²⁸ *Ibid*, p.1.

illustrative example was the acquisition of Pixar by Disney in 2006 to further enhance Disney’s animation business.²⁹

Entering into new markets. Mergers and acquisitions can provide a company with inventions that will allow a corporation to enter into new product markets in which it had not operated before like e.g. Facebook’s acquisition of Instagram and WhatsApp. These takeovers enabled Facebook to enter into the market for mobile applications. Another example was the acquisition of Android by Google, which made it possible for Google to enter the market for mobile operating systems.³⁰

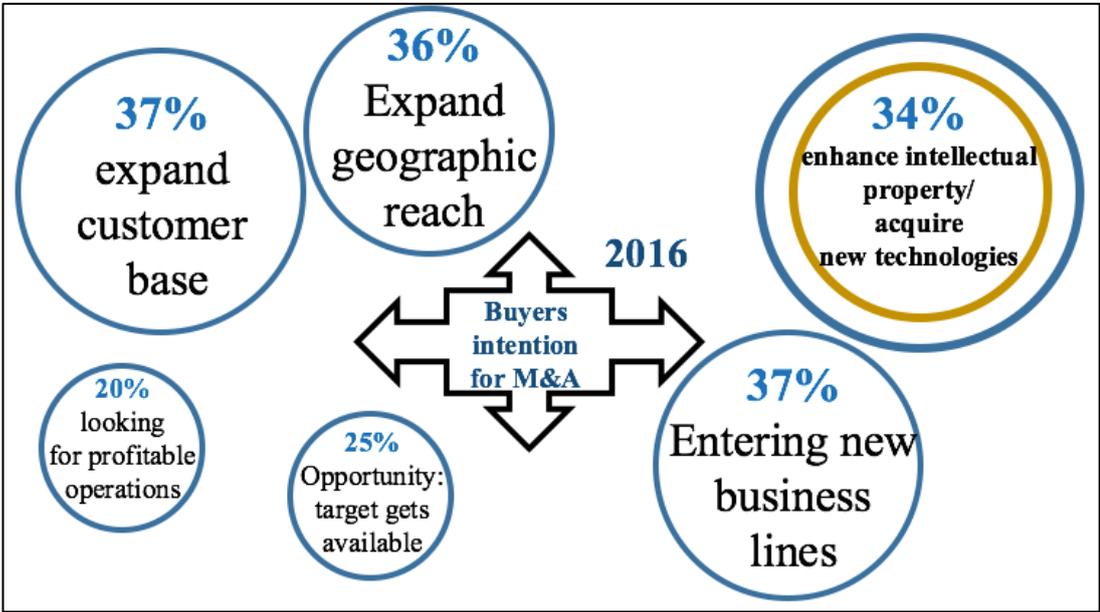


Figure 3: 2016 buyers intention for M&A (Source: KPMG 2016 M&A Survey Report)

Hence, as a conclusion, we may notice, that in fast changing times like today, beside the natural focus on reducing costs on an ongoing basis, the center of interest for many companies is the usage of mergers and acquisitions as a possibility to spread into new markets, to reach new customers, to enhance intellectual property and to obtain control over new innovative brands and technologies by improving efficiencies and synergies.³¹

²⁹ Evangelos Simoudis, 'Acquiring Innovation' (*Re-Imagining Corporate Innovation with a Silicon Valley Perspective*, 2014) <<https://corporate-innovation.co/2014/07/07/acquiring-innovation/>> accessed 22 March 2017, p.2.

³⁰ Ibid.

³¹ Prashant Kale, Harbir Singh and Anand Raman, 'Don't Integrate Your Acquisitions, Partner With Them' [2009] Harvard Business Review, p.4.

2.4.2 The Integration Process: Challenges to face when acquiring Innovation

M&A transactions can cause a time consuming and challenging integration process depending on the size of the involved companies, the number of affected employees and the environment the companies are operating in. Important decisions have to be made concerning e.g. changes in management, changes in the firm's organization or financial amendments. When absorbing young and dynamic companies, new technologies and sophisticated ideas, there will be special challenges a corporation has to face during that process, to make sure that future progress and innovation will not be put on hold.

2.4.2.1 Legal Barriers: The Pre-Challenge

In general, before talking about the accomplishment of a takeover, its effect on future innovation or even the integration process, a pending M&A deal has to comply with corresponding merger laws or it even has to be approved by the competent legal authority. The EU Merger Regulations and U.S. antitrust law stipulate whether companies are allowed to merge and also under which circumstances. As these merger regulations can cause the end of promising mergers or acquisitions, we have to ask ourselves an essential question considering the authorization of M&A transactions and the factor of innovation: Do these regulations consider the incentive of corporations, to be innovative and to invest in new and disruptive products, in an adequate and sufficient way? This thesis will have a closer look at the question in the excursus.

2.4.2.2 Integration of Innovation

Integration of new technology and expertise: M&A deals with a focus on acquiring new technology can cause serious integration challenges, as two firms typically do not use identical systems or technical applications. This is especially true when a firm's technology is primary proprietary. It can be difficult to harmonize different underlying database structures, the acquirer can lack the right skills to manage the innovative technologies or there can be problems with the consolidation of newly combined functions, methods and technologies e.g. the synchronization of IT-systems and infrastructure. Furthermore, there can be an interoperability problem of old and new technics and tools. All this will challenge the

integration process.³² Acquiring new technologies is not a “plugging in and go”, it requires a well-planned integration process, the exchange of know-how and the commitment from both sides, the acquired company and the acquirer.

Integration of different cultures, composition of a strong creative team: One of the biggest challenges a company has to face when acquiring an entity or startup is the merger of two different corporate cultures. Often, after the M&A transaction, creative employees will leave the new company, regularly because they are dissatisfied with the new environment they have to operate in or because they do not comply with the traditional corporate style of managing a firm. Therefore, a successful integration of different business cultures and operating teams is essential in the post-merger phase to avoid the loss of key employees and to ensure that talented people will stay committed after the takeover. That can be a true challenge as the right culture is necessary to innovate. By creating the right environment, by establishing a stimulating workspace and by building a strong creative team, composed of the most innovative people of both organizations, key elements of successful integration will be realized.³³

Cost reduction strategies without cutting innovation costs: Mergers and acquisitions are cost intensive and can cause a number of hidden expenses. Once the takeover deal is finalized, firms start to think about and develop strategies for reducing their upcoming costs. Undeniable it is essential to be aware of the future expenses of a company, but it will be also important not to cut the innovation costs down to a minimum. Innovation cannot take place without the commitment of a corporation to invest in new strategies and methods.

New product market focus, but avoiding a “cannibalization effect”: Often, as a consequence of acquiring innovation, new or enhanced products and services will be introduced to the market by the acquirer. Therefore, it will be crucial for the future survival of the company to balance old, already established products and new developed ones, to hinder the occurrence of market cannibalization. The new products can have a negative effect on the sales performance/output of the existing products, which then can possibly reduce the overall sales, an event that is harmful for the success of a M&A transaction and future growth of a company.

³² 'Integrating Proprietary Technologies Following An Acquisition' (*The Wall Street Journal*, 2017) <<http://deloitte.wsj.com/cio/2017/01/25/integrating-proprietary-technologies-following-an-acquisition/>> accessed 6 April 2017.

³³ Epstein Marc J., 'The Drivers Of Success In Post-Merger Integration' (2004) Vol.33, No.2 *Organizational Dynamics*, p.177.

Therefore, companies have to find a way to turn that danger into a promising opportunity to frustrate the cannibalization of their own products.³⁴

Further barriers: Further barriers may occur e.g. for a successful integration it can be vital for the merged companies to improve their marketing to introduce new acquired products to the market.³⁵

2.5 Literature Review: Traditional Studies on the Effects of M&A on Innovation

When having a look at the effects of M&A on innovation, an important question is how to measure innovation in reality? In the 1980s and early 1990s large scale statistical studies were done which focused on R&D spending and patent outcome. They considered these factors as measurable and adequate to define a firm's innovation-outcome. These studies found, that in general, M&A transactions do not have a beneficial, but a negative impact on a corporation's innovation process and that they negatively influence a company's "R&D intensity" and a corporation's "patent intensity".³⁶

Traditional studies of that kind claim, that the deal-type, the deal-structure and the characteristics of the merging firms determine the effects a M&A deal will have on the future innovation process and that a corporation's acquisition intensity is negatively connected with its innovation performance. Possible reasons for these negative effects are, beside the typical lower investments in R&D after the takeover, that M&A transactions absorb and expend a company's manager time and energy, distract him/her from other activities and often diminish the vital commitment of a company to put the focus on long-term innovation and long-term investment.³⁷ Additionally, after the M&A, companies regularly exchange strategic controls with financial ones. This will negatively affect investments with a long-term pay-off uncertainty, as R&D expenses are.³⁸ Research also showed that the effects of takeovers on R&D expenditures are highly dependent on the technological resemblances that exist between the

³⁴ Scott Anthony, 'Combating Cannibalization Concerns' [2011] Harvard Business Review, p.1-2.

³⁵ Ibid.

³⁶ Bruno Cassiman and Massimo G. Colombo, *Mergers & Acquisitions: The Innovation Impact* (1st edn, Edward Elgar Publishing 2004), p.2.

³⁷ Michael A. Hitt and others, 'Effects of acquisitions on R&D inputs and outputs' (1991) 34 Academy of Management Journal, p.693.

³⁸ Michael A. Hitt and others, 'The market for corporate control and firm innovation' (1996) 39 Academy of Management Journal, p.1084.

acquirer and the acquired firm and on the resemblances of the markets the parties are operating in. When companies operate in the same technological field, typically a rationalization of the R&D costs is the result.³⁹

Unlike these conclusions, there are also studies, which emphasizes that M&A can indeed have a positive effect for future innovation, as they facilitate and promote the “renewal” of a company’s business area by providing opportunities to further develop and improve existing products and resources.⁴⁰ Furthermore, research shows that M&A transactions that are technology-driven tend to have a positive influence on a corporation’s patenting output.⁴¹

Notwithstanding, statistical significance is poor and the résumé from these studies is, that results are incomplete and most of the time hard if not even impossible to generalize. The studies are extremely dependent on the business sector and do not provide a conclusive and satisfying outcome. Furthermore, they all focus on hard facts like R&D expenditures (“R&D intensity”) or the post-acquisition patent outcome (“patent intensity”).⁴²

On the one hand, measuring innovation only by having a look at R&D expenditures might distort the findings because often, immediately after the M&A process, in the post-acquisition period, R&D intensity may be reduced due to efficiency considerations or other cost-saving reasons.⁴³

On the other hand, measuring and defining innovation by focusing on the number and novelty of post-acquisition patents might be misleading as well. The number of patent applications tells nothing about the quality of these patents, nor about how suitable they are to achieve new disruptive inventions. There is another problem when talking about patents. Too often companies just file patents without ever using them. Patents will be registered to claim

³⁹ Bruno Cassiman and Massimo G. Colombo, *Mergers & Acquisitions: The Innovation Impact* (1st edn, Edward Elgar Publishing 2004), p.12

⁴⁰ Karim S. and Mitchell W, 'Path-Dependent And Path-Breaking Change: Reconfiguring Business Resources Following Acquisitions In The U.S. Medical Sector, 1978-1995' (2000) 21 Strategic Management Journal, p.1061.

⁴¹ Gautam Ahuja and Riitta Katila, 'Technologicaal Acquisitions And The Innovation Performance Of Acquiring Firms: A Longitudinal Study' (2001) 22 Strategic Management Journal, p.197.

⁴² Giovanni Valentini, 'Measuring The Effect Of M&A On Patenting Quantity And Quality' [2012] Strategic Management Journal, p.337.

⁴³ Ibid.

them in case they are needed, to have a “competitive advantage” over rivals and to be able to sue competitors if they infringe one of a company’s endless number of patents.⁴⁴

Stating this, I consider a different approach appropriate for my thesis and this is why I chose to take another path. Various surveys claim, that successful companies and the most innovative firms, have a similar integration pattern after performing a M&A.⁴⁵ Therefore, in contrast to the traditional studies, for this thesis, the “right” corporate culture and integration of the merging parties, will be seen as explorable indicators for innovation and firm growth.

⁴⁴ 'A Question Of Utility' [2015] The Economist <<http://www.economist.com/node/21660559>> accessed 1 May 2017.

⁴⁵ e.g. surveys from writers like Vermeulen and Fenwick (2016), Recklies (2015), Grandinetti (2017), Sánchez (2017) and Emotive Brand (2016).

III. Methodology

3.1 Value of Mergers and Acquisitions

Mergers and acquisitions can increase a company's firm growth, they can enhance a corporation's efficiency and organizational structure and M&As can extend a firm's available resources, open new product markets and areas of doing business. Furthermore, mergers and acquisitions can enable companies to jump on the bandwagon of innovation by acquiring new and promising technologies. They offer a great possibility to increase the process of inventive activity and to be part of disruptive ideas of creative thinkers.⁴⁶

3.1.1 What is the benefit of Mergers and Acquisitions

Failing M&As. As stated above, mergers and acquisitions are a common and valuable strategy to achieve firm growth and innovation success, but the reality shows something different. Most of the M&A transactions fail. According to various studies and research-reports in the field of M&A, most of the mergers and acquisitions deals destroy shareholder value in long term and show a remarkable high failure rate between 70 and 90 percent.⁴⁷

Researchers all over the world have tried to explain those frustrating results and found, that often M&A candidates do not match correctly and optimally and therefore, the strategic purposes and expectations will not be met. Too often, companies pay a wrong or inflated price and make crucial mistakes during the integration process.⁴⁸

Figure 4. below, will show several M&A failure rates explored by KPMG, Hay Group, Harvard Business Review, McKinsey and European financial review. All of these studies have one thing in common, they all emphasize the importance of cultural factors.

⁴⁶ Giovanni Valentini, 'Measuring The Effect Of M&A On Patenting Quantity And Quality' [2012] Strategic Management Journal, p.337.

⁴⁷ Clayton M. Christensen and others, 'The Big Idea: The New M&A Playbook' [2011] Harvard Business Review, p.1-3.

⁴⁸ Ibid.

<p>KPMG</p>	<p align="center">70% FAIL</p> <p><i>”(...) cited various reasons for the bad result (...) gaping inability to keep key personnel and get the two corporate cultures to work in unison.“</i> ⁴⁹</p>	
<p>Hay Group</p>	<p align="center">91% FAIL</p> <p><i>Business leaders must recognize that the value of today’s companies is primarily in their intangible assets- the strategic, people and cultural factors that don’t show up on a balance sheet.”</i> ⁵⁰</p>	
<p>Harvard Business Review</p>	<p align="center">70-90% FAIL</p> <p><i>“Failing to understand where the value resides in what’s been bough and therefore integrating incorrectly, has caused some of the biggest disasters in acquisitions history.”</i> ⁵¹</p>	
<p>McKinsey</p>	<p align="center">66-75% FAIL</p> <p><i>“Almost 70 percent of the mergers in our database failed to achieve the synergies expected (...)”</i> ⁵²</p>	
<p>European financial review</p>	<p align="center">90% FAIL</p> <p><i>“Barriers to merger integration success frequently revolve around people issues. The most prevalent ones include: (...) cultural differences between the two companies, (...)”</i> ⁵³</p>	

Figure 4: M&A failure rates

⁴⁹ 'KPMG 2016 M&A Survey Report' (*Info.kpmg.us*, 2016) <<https://info.kpmg.us/ma-survey/index.html>> accessed 30 April 2017.

⁵⁰ '91% Of Mergers Fail Due To Culture Shock' (*Haygroup.com*, 2007) <<http://www.haygroup.com/nl/press/details.aspx?id=10307>> accessed 2 May 2017.

⁵¹ Clayton M. Christensen , 'The Big Idea: The New M&A Playbook' [2011] Harvard Business Review, p.15.

⁵² 'Where Mergers Go Wrong' (*McKinsey & Company*, 2004) <<http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/where-mergers-go-wrong>> accessed 2 May 2017.

⁵³ Philip King and John Kennedy, 'Best Practices In Business Services Following A Merger Or Acquisition | The European Financial Review | (*Europeanfinancialreview.com*, 2016) <<http://www.europeanfinancialreview.com/?p=5897>> accessed 2 May 2017.

Therefore, the question ahead is, what is the main reason that such a high amount of M&As fail and what exactly distinguishes successful companies and successful M&As, which do not fail, from those that do fail? Why are some corporations more innovative after the M&A process than others?

The keyword is CORPORATE CULTURE.

3.1.2 Corporate Culture

When asking for reasons why so many M&A transaction fail, a common and widely unified answer is, that most failures of takeovers are caused by irreconcilable cultural differences between the merging parties and by a miscarried integration process. Therefore, the importance and impact of corporate culture on successful M&A should not be underestimated and the joint elaboration of a shared and innovative culture, where people from the merging parties work together in a smooth way, is a crucial essence for merger and innovation success. Unquestioned, it will be not beneficial, if the more powerful partner determines the future culture and imposes his way of corporate culture on the weaker part. After a M&A, people with different backgrounds and organizational cultures are expected and forced to suddenly work together. This is a fact that has to be taken care of. The goal is to develop a new and winning culture that best fits the merger deal and will facilitate growth and innovation in the future.⁵⁴

Winning companies show how a successful integration can be performed. Take the example of the acquisition of RIOT Games and WhatsApp: In 2015, the Chinese internet giant TENCENT Holdings completed its acquisition of RIOT Games, Inc. (TENCENT now fully owns RIOT Games). When having a look at the website of RIOT Games, there are no indicators visible that show the change of ownership or the new brand of the new owner TENCENT. The only name you can see when going to the website is still RIOT Games. After the acquisition, the founders of RIOT Games are still in the company and the firm operates, as if it has not been acquired in the past. The same can be said about the acquisition of WhatsApp by Facebook in

⁵⁴ Dagmar Recklies, 'Corporate Culture- Do Not Underestimate Its Impact On Merger Success' (*The manager.org*, 2015) <<http://www.themanager.org/2015/07/corporate-culture-merger-success/>> accessed 30 April 2017.

2014. Facebook allowed WhatsApp to operate separately and until today, WhatsApp has the possibility to keep on with its ideas and innovative culture.⁵⁵

These companies tend to use a new track of cultural integration, the track of “non-integration”.

Hypothesis 1: Today, many companies want to grow and therefore acquire other entities. They also acquire startups to innovate, because they do not have all the knowledge inside their firm. Innovation is growing and the question is, if acquiring innovation is really a reasonable idea? In theory innovation through M&A is indeed a good idea and that’s why we assume that

- a) mergers and acquisitions are a positive thing for companies to achieve firm growth and to stay innovative on a competitive edge and that therefore M&As have to be done to achieve these goals and
- b) the effective legal system and today’s merger regulations actually promote innovation.

Hypothesis 2: As shown above, most M&A transactions fail because the two different cultures of the acquirer and the acquired company are not integrated effectively. The integrations process is, as stated before, a delicate element of the post-acquisition process and often the integration of two different cultures is simply not possible.

Hypothesis 3: Winning and innovative companies do not force the merger of cultures, instead they let the acquired company operate separately, as if it has not been acquired before. Therefore, innovation will be boosted if the acquired company is allowed to keep its own identity and firm culture, otherwise innovation will diminish.

Hypothesis 4: When a company or startup has been acquired and the founders /key employees are still there, the path for future innovation and growth will be positive.

⁵⁵ <<http://www.riotgames.com>> and <<https://www.whatsapp.com>> accessed 10 May 2017.

3.1.3 Database and examples

Stating the importance of corporate culture for the success of a M&A process, the remaining question is, which “sort” of corporate culture is needed to foster future innovation. When having a look at the Top 10 M&A transactions and the Top 5 startup transactions in 2012, chosen by their deal size (see *Appendix I*), several factors of a special pattern in the integration process were taken into account. The “right” corporate culture plays a significant role for fostering innovation and successful companies tend to organize their integration process in a particular way.

This master thesis will have a look at the presented issues when comparing 2012’s M&A transactions:

- Are the founders still in the company after the M&A transaction?
- What happened to key employees?
- Do the companies operate separately after the takeover?
- Do the companies engage in measures to foster innovation?

For the definition of the term “M&A Success” and “Middling Success”, the current business status of the companies, effective on the 07.05.2017, will be conclusive. The data was provided by “PitchBook” Data. Subsequently, the term “M&A Success” will include the status “Profitable” and “Generating Revenue”. Compared to this, the term “Middling Success” will cover the status “Generating Revenue/Not Profitable”. The current business status, the search criteria, as well as the detail information about the examined corporations will be presented in *Appendix I*. For a better illustration, graphs from “The Wall Street Journal” will be included, if provided by the source and publicly available.

3.1.4 Case Study

3.1.4.1 Overview: Top 10 Companies

Company	Investors/ Acquirer	Merger Success	Middling Success	Merger Failure	Key Employees Still there after M&A	Founders Still there after M&A	Operated Separately Yes
Medco Health Solutions	Express Scripts	×			×		~
RBS Aviation Capital	Sumitomo Mitsui Financial	×			×		×
Tudou Holdings	Youku Tudou	×				×	×
HGST	Western Digital	×			×		×
Lucasfilm	Walt Disney Company	×			×		×
Netlogic Microsystems	Broadcom (Acquired)		~		~		~
Temple-Inland	International Paper	×					
Human Genome	GlaxoSmithKline	×			~		~
Elster Group	Melrose Industries	×			~		×
CFAO	Toyota Tsusho	×			×		×

Figure 5: Overview of the integration process of the Top 10 M&A transactions in 2012

Labeling: x= fully met; ~ = almost met

3.1.4.2 Detail Analysis: Top 10 Companies

1. Medco Health Solutions/ Express Scripts Holding: M&A Success

With this transaction, two of the biggest pharmacy-benefit managers in the U.S were merged, when Express Scripts agreed to buy Medco Health Solutions Inc. for \$29.1 billion. It was the largest deal to close in 2012 and the second largest announced M&A transaction of 2011, after AT&T/T-Mobile. With acquiring Medco, an original part of the drug giant Merck& Co and provider of clinical research and pharmacy services, Express Scripts strengthened its opportunities in times of changes in the health care industry.⁵⁶ After the merger, the company stayed ahead of its leading position by investing in innovation and by using big data to improve its developments. Express Scripts employs a Chief Innovation Officer and communicates to know about the importance of keeping up with technological developments. It can be seen that the company emphasis progress and shows a special commitment by rewarding employees for ideas that can be potentially transformative and disruptive for the company. Express Scripts focuses on how to become more of a technology firm, which improves healthcare, than being a pharmacy. The firm also established a mobile and web development team to advance its abilities in a crucial area: smartphones and social web. In 2015 the company was voted to be “World’s Most Innovative Companies”, number 66 overall (Forbes).⁵⁷ Medco Health Solutions still operates as part of Express Scripts. When having a look at the leading positions at Express Scripts, it shows that the company kept some important leading employees in their space e.g. Express Scripts’ current Chief Executive Officer & President joined the company when it merged with Medco. He worked for Medco for almost 14 years and led Medco’s employer and key accounts organizations. Also Express Scripts’ Senior Vice President and Chief Innovation Officer worked before the M&A transaction for 17 years in a leadership role at Medco.⁵⁸ Interestingly, in 2015, a study by the career website *glassdoor*, named Express Scripts, according to various anonymous employee ratings, the worst company to work for in the United States. Employees claim that they feel rushed and overwhelmed by their work. On the other

⁵⁶ Anupreeta Das, Gina Chon and Anna Wilde Mathews, 'Express Scripts To Buy Medco For \$29,1 Billion' [2011] The Wall Street Journal.

⁵⁷ Lee Morehouse, 'How Express Scripts Fosters A Culture Of Innovation' (*EQ*, 2016) <<http://eqstl.com/express-scripts-dr-glen-stettin-on-corporate-innovation/>> accessed 18 May 2017.

⁵⁸ <<http://lab.express-scripts.com/about/leadership.>>accessed 18 May 2017.

side, the company received a number of honors like a “Candidate Experience Award in 2014”, local awards for being a “Best Place to Work” at and it supports veterans and people actively working in the Military. Express Scripts also continuously tries to improve its firm culture.⁵⁹ The future will show the path of Express Scripts, as the company is likely to face some revenue losses because of the high chance to lose its biggest customer Anthem. After having sued Express Scripts, Anthem is unlikely to renew its contract with the pharmacy benefit manager after 2019.⁶⁰

Express Scripts financial developments:

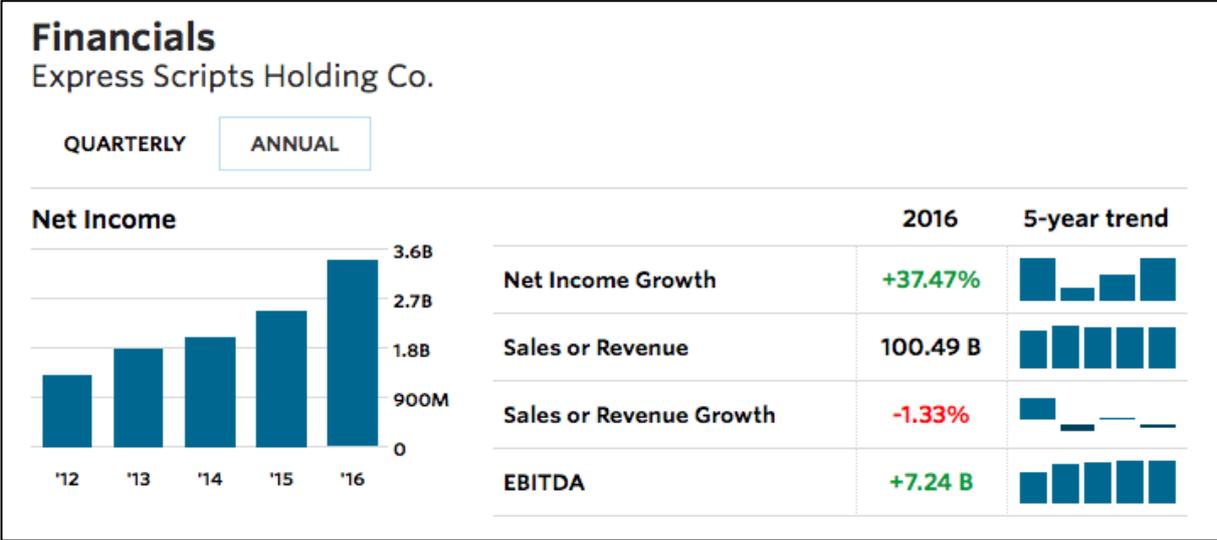


Figure 6: Express Scripts Financials (Source: WSJ <http://quotes.wsj.com/ESRX?mod=chiclets>)

2. RBS Aviation Capital/ Sumitomo Mitsui Financial Group: M&A Success

In 2011 the Royal Bank of Scotland Group plc (RBS) announced the sale of RBS Aviation Capital, its aircraft-operating-leasing company, to Japan’s Sumitomo Mitsui Financial Group Inc. (a consortium) for \$7.3 billion. RBS Aviation Capital was by that time the fourth largest aircraft lessor in the world and Sumitomo Mitsui had during the merger-period already a broad business in aircraft-financing. This M&A deal was the largest global sale ever done in

⁵⁹ Meghan Ross, 'Express Scripts, CVS Rank In Worst Companies For Workers' (*Pharmacy Times*, 2015) <<http://www.pharmacytimes.com/careers-news/express-scripts-cvs-rank-in-worst-companies-for-workers>> accessed 18 May 2017.

⁶⁰ Bowdeya Tweh, 'Express Scripts Says It Will Lose Anthem, Its Biggest Customer, In 2020.' [2017] The Wall Street Journal.

the area of aircraft-leasing assets.⁶¹ After the sale, the name of the company was changed from RBS Aviation Capital to SMBC Aviation Capital. Despite the (minimal) adjustment of the company name, there are several characteristics apparent when having a closer look at the corporate culture of the corporation. SMBC Aviation Capital firm's history starts in 2001, when the company was founded by Royal Bank of Scotland acquiring International Aviation Management Group. In 2004 the firm was rebranded in RBS Aviation Capital. When the acquisition by Sumitomo Mitsui Financial Group in 2012 took place, there is no "cut" in the firm's history, rather the company emphasizes that with the deal "*We become SMBC Capital*". Furthermore, when announcing the sale, the companies stated clearly that the management team and employees of RBS Aviation Capital are highly prestigious in the aircraft industry, which is why they will remain with the business. The CEO of RBS Aviation Capital is still CEO of the corporation, also the members of the board of directors were kept in place and key employees in the area of aircraft trading, previously worked for RBS Aviation Capital and are still part of the team. Additionally, SMBC Aviation Capital's headquarter is still located in Dublin, Ireland. The company has been let stayed on spot.⁶² Overall, SMBC Aviation Capital shows to know about the important role of key employees and wants RBS' team, which operated the firm in the past in a successful manner, to still promote the growth of now SMBC Aviation Capital. When having a look at the homepage of the aircraft leasing company, it can be seen that they consider it important to invest in future development and innovative activities that further improve their services and products e.g. investing in newest aircrafts models. In 2017 they were also shortlisted for the Tech Excellence Awards.⁶³

⁶¹ Marietta Cauchi, Jessica Hodgson and Doug Cameron, 'RBS Jet Lessor Fetches \$7.3 Billion' [2012] The Wall Street Journal.

⁶² <<https://www.smbc.aero>> and <<http://www.rbs.com/news/2012/01/rbs-announces-sale-of-rbs-aviation-capital-to-a-consortium-of-su.html>> accessed 19 May 2017.

⁶³ <<https://www.smbc.aero/news>> accessed 19 May 2017.

Sumitomo Mitsui Financial Group financial developments:

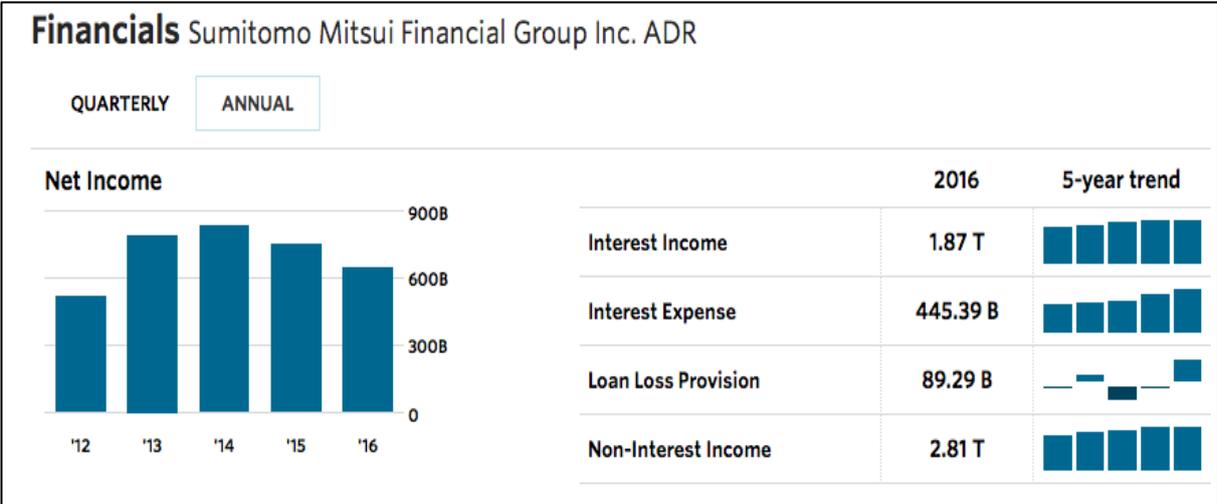


Figure 7: Sumitomo Mitsui Financials (Source: WSJ <http://quotes.wsj.com/SMFG?mod=chiclets>)

3. Tudou Holdings/ Youku Inc.: M&A Success

Youku Inc., a Chinese online-video firm, announced to acquire its biggest competitor Tudou Holdings Ltd. for \$4.8 billion. This deal combined two rival companies to become the largest firm by advertising revenue in China’s industry for online-videos, an industry known to be highly transformational and in the past considered to be a “province of pirated content” when it comes to online-video services. China’s shift to licensed content was successful and created a costly business for online-videos. In 2012, The Wall Street Journal (WSJ) described Youku and Tudou both as unprofitable. Industry experts were skeptical if the newly merged companies could make it to profitability, many believed that the deal would just create “one unprofitable company” out of “two unprofitable corporations”.⁶⁴ After the M&A, the company was named Youku Tudou Inc. The two businesses Youku.com and Tudou.com were continued to operate completely separate, under distinct brands, as if no takeover had been performed.⁶⁵ Tudou’s founder Mr. Wang retired after the M&A as Tudou Holdings’ chairman and chief executive officer, but he was kept within the new company and was announced to become member of the

⁶⁴ Loretta Chao and Isabella Steger, 'Chinese Video Firms Cue Up A Deal' [2012] The Wall Street Journal.

⁶⁵ <<http://www.youku.com>> and <<http://www.tudou.com>> accessed 19 May 2017.

board at Youku Tudou Inc.⁶⁶ Due to language barriers, it was not possible to evaluate, what happened to key employees after the M&A transaction. Youku Tudou Inc., today leading internet television company in China, announced in 2013 and 2014 that it edges towards profitability and confirmed the success of the merger.⁶⁷ Promising times can be in front of Youku Tudou as in 2015, Alibaba Group Holding Ltd. reached a deal to buy the company for about \$4.4 billion. This can further strengthen their market position and growth.⁶⁸

4. HGST/ Western Digital: M&A Success

In the year of 2011 Western Digital Corporation (WD), a leading provider of storage solutions and hard drives, agreed to buy HGST (Hitachi Global Storage Technologies), founded in 2003 as a merger of the businesses of IBM and Hitachi and selling hard disk drives and external storage products, for \$4.3 billion.⁶⁹ The deal caught attention from antitrust regulators, which is why the deal was approved by Chinese regulators only under several conditions e.g. that the corporations will continue to run their entities separately.⁷⁰ In 2015, the regulators relaxed the restriction on the integration process of the merging parties and Western Digital got the approval to start to integrate HGST. Still, till the end of 2017, the sales team and product brands have to be operated separately. Western Digital complied with these restrictions. Both, HGST's and WD's product brands are in the market and they are run separately. The brand HGST only indicates in a "subline" that HGST is a Western Digital Brand. Interestingly, when having a look at their further integration process and the executive management team of WD, it seems like HGST performed a reverse take-over of WG. The CEO of HGST continued his work as CEO, also the former president of the company became president of the merging

⁶⁶ Youku Tudou Inc., 'Youku Tudou Inc. Announces Appointment Of Two Directors To Company's Board Of Directors' (*Prnewswire.com*, 2012) <<http://www.prnewswire.com/news-releases/youku-tudou-inc-announces-appointment-of-two-directors-to-companys-board-of-directors-167820645.html>> accessed 19 May 2017.

⁶⁷ Patrick Frater, 'Chinese Online Video Leader Youku Tudou Edges Towards Profitability' (*Variety*, 2013) <<http://variety.com/2013/biz/asia/chinese-online-video-leader-youku-tudou-edges-towards-profitability-1200835695/>> accessed 19 May 2017.

⁶⁸ Anne Steele, 'Alibaba Reaches Deal To Buy Youku Tudou' [2015] *The Wall Street Journal*.

⁶⁹ Don Clark and Daisuke Wakabayashi, 'Merger To Create PC Drive Giant' [2011] *The Wall Street Journal*.

⁷⁰ Eva Dou, 'China Eases Controls On Western Digital As State-Run Firm Plas To Invest' [2015] *The Wall Street Journal*.

companies and Chief Operating Officer (COO) of Western Digital. Additionally most of the key positions were filled with employees from HGST.⁷¹

Western Digital encourages the promotion of young talents and creativity to achieve innovative products of high quality. The companies describe its corporate culture in an innovative driven manner: *“We strive to create for our employees an environment which offers professional and intellectual challenges, which encourages innovation and creativity, and which rewards success and effective teamwork.”* Further: *“A culture that allows our employees to focus on doing their best work leads to high quality and innovative products, exceptional customer service and operational excellence.”*⁷² In the past, the company performed a number of technological innovations, also in 2015 Western Digital decided to further broaden up its portfolio of innovative technology and products by announcing the acquisition of SanDisk.⁷³

Western Digital financial developments:

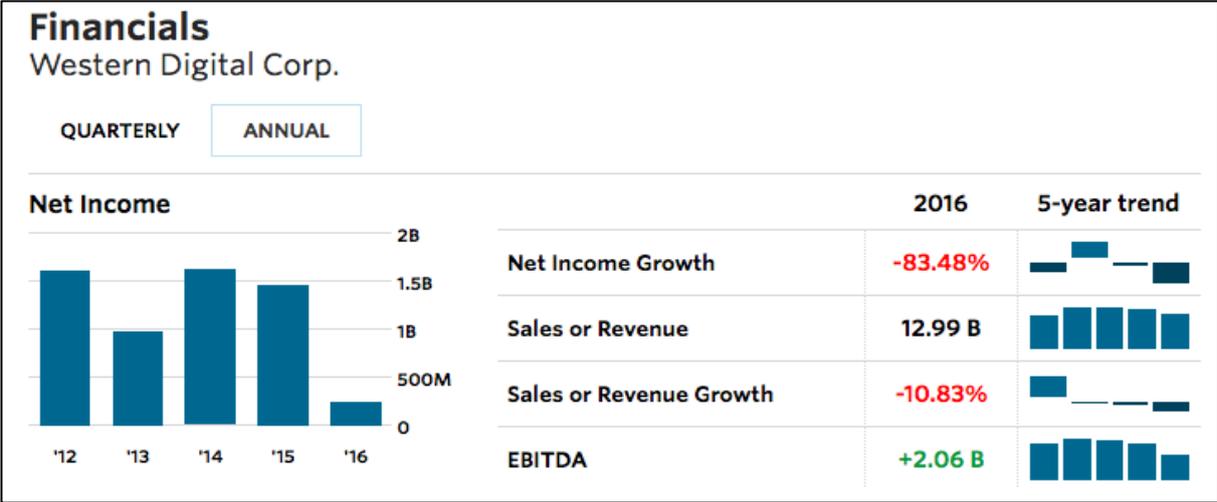


Figure 8: Western Digital Financials (Source : WSJ <http://quotes.wsj.com/WDC?mod=chiclets>)

Future development will show how the M&A transaction between Western Digital and SanDisk will affect the financial situation and innovative activity of Western Capital.

⁷¹ Chris Mellor, 'China Finally Says Yes To WD-HGST Union' (*Theregister.co.uk*, 2015) <https://www.theregister.co.uk/2015/10/19/mofcom_says_yes_wd_hgst_merger/> accessed 20 May 2017 and <<https://www.wdc.com/about-wd/corporate-officers/board-bios.html>> accessed 20 May 2017.

⁷² <<https://www.wdc.com/about-wd/global-citizenship/employees.html>> accessed 20 May 2017

⁷³ <<https://www.sandisk.com/about/media-center/press-releases/2015/western-digital-announces-acquisition-of-sandisk>> accessed 20 May 2017.

5. Lucasfilm/ The Walt Disney Company: M&A Success

In 2012, Mickey Mouse and Darth Vader “joined forces” in a \$4.6 billion M&A deal, when Walt Disney Co. decided to buy Lucasfilm Ltd. With the merger of the two movie-giants, Lucasfilm, one of the global leading entertainment service businesses that produced among other successful movies “Star Wars” and which was wholly owned by its founder George Lucas, should break into new grounds in film, interactive media, entertainment and theme parks, beyond the lifetime of Mr. Lucas. During the pending merger the 68-year-old father of “Star Wars” and “Indiana Jones” said about the deal: *“I’ve always believed that “Star Wars” could live beyond me, and I thought it was important to set up the transition during my lifetime.”* The two companies agreed that the employees of Lucasfilm, in the area of “digital-effects house Industrial Light& Magic” and departments that focused on sound and other important elements for the filmmaking industry, would be left in place.⁷⁴ The brands of Lucasfilm and Walt Disney were kept separately and both still exist in the market, Lucasfilm still produces under the name Lucasfilm. When visiting the homepage of Lucasfilm, the brand name indicates no merger with Walt Disney. Only the firm’s history tells about the M&A happenings in 2012. The current president of Lucasfilm was selected personally by George Lucas in 2012, also key employees like the General Manager or the Franchise Management still work for the company.⁷⁵ Lucasfilm, before 2012 managed only by George Lucas, had no development executives or creative committees, it was just Luca’s iconic visions. In Comparison, Walt Disney focuses on innovation and the company steadily broadens up their product range by acquiring promising businesses like Pixar or Marvel. *“We keep moving forward, opening new doors, and doing new things, because we’re curious and curiosity keeps leading us down new paths.”* Walt Disney also announced that from 2015 on, at least 3 new “Star Wars” movies will follow. Never before in the lifetime of Lucasfilm, as many new “Star Wars” material was released e.g. additionally to the cinema movies, comic books, “Star Wars” theme park attractions, new animated series, videogames and much more is planned. With the acquisition of Lucasfilm, Walt Disney further strengthened its course of action towards a future of creativeness and competitiveness.⁷⁶ The Walt Disney Animation Studios have a long history of technological inventive activity,

⁷⁴ Ethan Smith and Erica Orden, 'Mickey, Darth Vader Join Forces In \$4.05 Billion Deal' [2012] The Wall Street Journal.

⁷⁵ <<http://lucasfilm.com/our-story>> accessed 20 May 2017.

⁷⁶ Ben Fritz, 'Disney Expands The "Star Wars" Galaxy' [2014] The Wall Street Journal.

including early stage pioneering methods, innovative software winning the Academy Award and innovative production in all areas of modern animation.⁷⁷

Walt Disney financial developments:



Figure 9: Walt Disney Financials (Source: WSJ <http://quotes.wsj.com/DIS?mod=chiclets>)

6. NetLogic Microsystems/ Broadcom: Middling Success

In 2011 Broadcom, one of the global innovation leaders in the semiconductor sector and industry for wireless and broadband communication, declared to pay \$3.6 billion for acquiring NetLogic Microsystems, a company operating in the development of high performance products for data center and wireless and wireline infrastructure networks. The acquisition of NetLogic Microsystems enabled Broadcom to broaden up its portfolio of infrastructure with key technologies. Before the M&A transaction, NetLogic mostly reported losses, but the company was viewed to bring valuable new opportunities for the acquirer.⁷⁸ In a press release 2012, Broadcom announced that the former CEO and president of NetLogic Microsystems will join the acquiring company Broadcom as Senior Vice President and General Manager. Additionally, immediately after the merger, more than 700 employees of NetLogic will become part of the Broadcom team.⁷⁹ Broadcom is well known for fostering innovation and for its inventive activity as the company emphasizes the importance of patent outcome for

⁷⁷ <<https://www.disneyanimation.com/technology/innovations>> accessed 22 May 2017.

⁷⁸ Don Clark, 'Broadcom To Pay \$3.7 Billion To Acquire Netlogic Microsystems' [2011] The Wall Street Journal.

⁷⁹ <<https://www.sec.gov/Archives/edgar/data/1054374/000119312512066472/d302968dex991.htm>> accessed 22 May 2017.

every engineering company and the importance of bringing people together to embrace the creative process. On their homepage, Broadcom keeps the public up to date about their innovative procedures in a Blogspot.⁸⁰ In 2015 Broadcom announced its acquisition by the chip maker Avago Technologies Ltd. for the high amount of \$37 billion, the biggest pure technology deal on record.⁸¹

Broadcom financial developments:

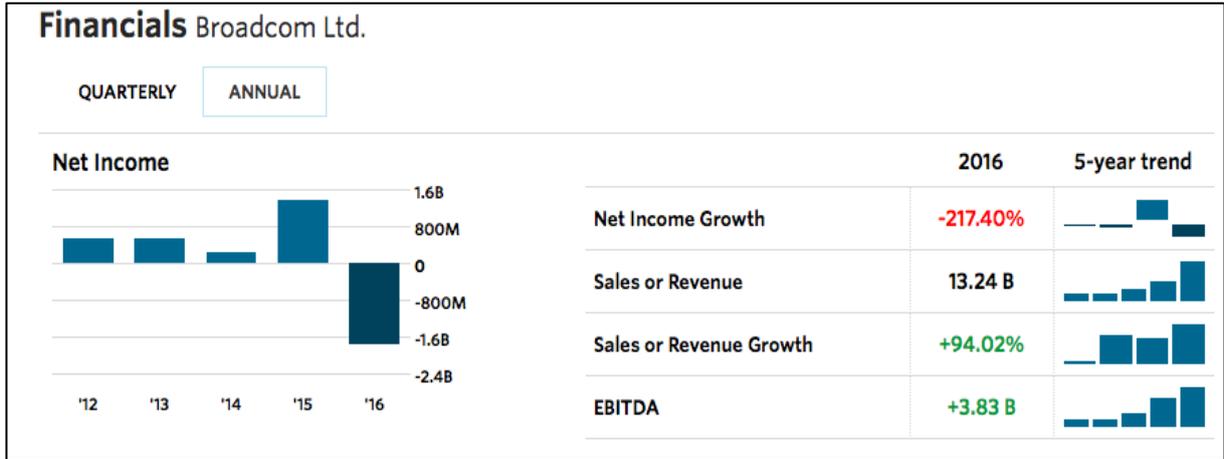


Figure 10: Broadcom Financials (Source: WSJ <http://quotes.wsj.com/AVGO>)

7. Temple-Inland/ International Paper Company: M&A Success

In 2012, International Paper, a globally operating company in the industry of paper and packaging, completed the acquisition of Temple-Inland, a manufacturing corporation specialized with packaging and building products, for \$3.5 billion.⁸² Two years later, in 2014, International Paper agreed to merge its distribution services entity, xpedx, with Unisource Worldwide Inc.⁸³ In 2016 International Paper went for another M&A, it announced, that it completed the acquisition of the pulp business Weyerhaeuser. Interestingly, the current President and CEO of Weyerhaeuser, Doyle R. Simons, was the former Chairman and CEO of Temple-Inland (also during the M&A process between Temple-Inland and International paper)

⁸⁰ <<https://www.broadcom.com/blog/broadcom-makes-the-grade-on-greenhouse-gas-reductions-improves->> accessed 22 May 2017.

⁸¹ Dana Mattiolo, Dana Cimilluca and Shayndi Raice, 'Avago Agrees To Buy Broadcom For \$37 Billion' [2015] The Wall Street Journal.

⁸² Bob Tita, 'IP's Temple Deal Adds Clout In Packaging' [2011] The Wall Street Journal.

⁸³ Ben Fox Rubin, 'International Paper To Merge Xpedx With Unisource Worldwide' [2014] The Wall Street Journal.

until the company was acquired by International Paper in 2012.⁸⁴ Due to the lively M&A activity of International Paper, the integration process and corporate culture of Temple-Inland/International Paper straight after the merger of these companies is masked/ distorted. At this point, no former key employees of Temple-Inland have leadership roles at International Paper anymore, but this does not implicate the opposite picture after the takeover in 2012.

8. Human Genome Sciences/ GlaxoSmithKline: M&A Success

In 2012 the pharmaceutical giant GlaxoSmithKline (GSK), which is well known for investing in new resources, intellectual property and open innovation, bought Human Genome Science (HGSI), a biopharmaceutical company founded in 1992, for \$2.8 billion. Before the deal, the companies already partnered for the development of several drugs e.g. in the case of HGSI's three main drug programs. Like many other bigger drug corporations, also GSK was looking for promising companies to restock their product lines with new drug articles as older ones lost their patent protection.⁸⁵ After the takeover process, HGSI's CEO retired and most of the leading employees were not integrated into GSK. The executive team was exchanged, most of the board of directors retired as well. Still, HGSI's employees were left in place.⁸⁶ Human Genome Science still operates as a biopharmaceutical company under its brand, with 855 employees, and was integrated into the GSK group.⁸⁷ HGSI does not maintain its own homepage anymore.

In 2016 GlaxoSmithKline announced sustained benefits that studies have revealed for Benlysta, one of the promising drugs GSK has acquired from HGSI.⁸⁸

⁸⁴ <<http://investor.weyerhaeuser.com/2016-12-01-Weyerhaeuser-completes-sale-of-Cellulose-Fibers-pulp-mills-to-International-Paper>> accessed 22 May 2017.

⁸⁵ 'Glaxo To Buy Human Genome Sciences For \$3 Billion' (*The New York Times*, 2012) <https://dealbook.nytimes.com/2012/07/15/glaxosmithkline-in-talks-to-buy-human-genome/?_r=0> accessed 23 May 2017.

⁸⁶ Steven Overly, 'Glaxosmithkline Ejects Executives From Recently Acquired Human Genome Sciences' [2012] *The Washington Post*, and <<http://www.gsk.com/en-gb/about-us/board-of-directors/>> accessed 23 May 2017.

⁸⁷ <<https://www.linkedin.com/company-beta/9852/>> accessed 23 May 2017.

⁸⁸ <<http://us.gsk.com/en-us/media/press-releases/2016/gsk-s-benlysta-belimumab-shows-sustained-benefits-in-patients-with-sle/>> accessed 23 May 2017.

9. Elster Group/ Melrose Industries: M&A Success

Melrose Industries, more precisely its subsidiary Miniford AG, acquired Elster Group in 2012 for \$2.3 billion.⁸⁹ On the one side, Elster Group's CEO at the time of M&A deal, was kept in place as Vice President of Elster until 2015.⁹⁰ On the other side, Elster Group announced in a press release following the announcement of the deal, that their board and management team will experience fundamental changes after the completion of the takeover transaction e.g. all members of the administrative board resigned from their offices at Elster Group.⁹¹ In 2015 Elster faced another M&A transaction due to its acquisition by Honeywell.⁹² Today, when having a look at Elster Group's homepage, the company still appears and operates under its brand name "Elster", but the brand of "Honeywell" was added as well, clearly apparent next to the logo of "Elster", to indicate the changes of ownership.⁹³

10. CFAO/ Toyota Tsusho: M&A Success

In 2012 Toyota Tsusho Corporation announced its alliance with CFAO, the largest trading company in France (automobile import/export, pharmaceutical wholesale), which had centered its business on Africa, for \$2.09 billion.⁹⁴ After the acquisition of CFAO, the company was not integrated into the corporate structure of the acquirer Toyota, instead the two brands were kept separately. Only the firm's history on the homepage of CFAO indicates that the Group was acquired in 2012 by Toyota Tsusho Corporation. Toyota Tsusho also knew about the importance of keeping key employees. The CEO of CFAO at the time of the takeover deal, is still part of the board of directors, also the current chairman of the board of directors of CFAO worked for the company since 1999. Two further members of the board were already part of the CFAO team before the M&A process. When having a look at the General Management Committee of CFAO, it is visible that additional key persons were adopted and kept with the

⁸⁹ <<https://www.elster.com/en/history>> accessed 23 May 2017.

⁹⁰ <<https://www.linkedin.com/in/pmcorrigan/>> accessed 23 May 2017.

⁹¹ <<http://www.elster.com/en/press-releases/2012/1729463>> accessed 23 May 2017.

⁹² <<https://www.elster.com/en/history>> accessed 23 May 2017.

⁹³ <<https://www.elster.com/en/index>> accessed 23 May 2017.

⁹⁴ <<http://www.toyota-tsusho.com/english/csr/business/case04.html>> accessed 23 May 2017.

acquisition.⁹⁵ The two companies have compatible business structures and a similar business culture, as they foster innovation to achieve sustainable development and growth and emphasize the importance of fulfilling their corporate social responsibilities.⁹⁶

3.1.4.3 Overview: Top 5 Startups

Company	Investors/ Acquirer	Merger Success	Middling Success	Merger Failure	Key Employees: Still there after M&A	Founders: Still there after M&A	Operated Separately: Yes
Meraki	Cisco	✕			✕	✕	✕
Buddy Media	Salesforce	✕			✕	✕	
Extend Health	Tower Watson	✕			✕	✕	✕
Gaikai	Sony Entertainment	✕			✕	✕	✕
SealMicro	Advanced Micro Devices	✕			✕	✕	✕

Figure 11: Overview of the integration process of the Top 5 startup transactions in 2012

Labeling: x= fully met

3.1.4.4 Detail Analysis: Top 5 Startups

1.Meraki/ Cisco System: Successful Merger/ Integration

In 2012 Cisco, global leader for producing computer hardware to pass on data, bought Meraki for \$1.2 billion and added with this deal an innovative startup to its wireless and

⁹⁵ <<http://www.cfaogroup.com/en/governance>> accessed 23 May 2017.

⁹⁶ <<http://www.toyota-tsusho.com/english/csr/business/case04.html>> accessed 23 May 2017.

networking technology portfolio. The deal was part of Cisco's strategy to grow through acquisitions of promising companies which will provide Cisco with new technologies.⁹⁷ Meraki was founded in 2006 as a cloud managed IT entity that sells networking devices. After the M&A transaction, the corporations name was changed in "Cisco Meraki". Cisco and Cisco Meraki are still operated completely separated. Cisco Meraki kept its operations as an independent unit. They both have their own homepages and run their own products under their own brands, Cisco on the one side and Cisco Meraki on the other side. On their homepage Cisco Meraki announces: Who you should call for support? *"Continue to call Meraki support for Meraki products, and Cisco support for Cisco products"*.⁹⁸ When having a look at the homepage of Cisco Meraki another thing is noticeable, namely that the name "Meraki" is in the center stage. The merged company Cisco Meraki was stayed on spot. The headquarter of the company is still in San Francisco. *"Cisco recognized we built a culture and environment in San Francisco that has helped us recruit and retain phenomenal talent across departments"*.⁹⁹ Furthermore, all the three founders of Meraki stayed in the company after the takeover, they left the business in 2015 and already founded another startup company. Also the Meraki team continued to build and develop the products. Under the continued leadership of the founders the business became one of the fastest growing businesses of Cisco.¹⁰⁰ With Meraki, Cisco adopted an innovative startup that has the drive to steadily develop products that have a huge impact on their customers and a company that also wants to push their ideas forward, even after being acquired by Cisco.¹⁰¹

2. Buddy Media/ Salesforce: Successful Merger/ Integration

Salesforce Inc. purchased the startup firm and online- marketing company Buddy Media, that helped leading global brands with their Facebook and Twitter strategy, for \$800 million. With the transaction, Salesforce, a provider of business software, wanted to extend its

⁹⁷ Ben Worthen, 'Cisco To Buy Meraki For \$1.2 Billion' [2012] The Wall Street Journal.

⁹⁸ <<https://meraki.cisco.com/de/company/cisco-acquisition-faq>> accessed 24 May 2017.

⁹⁹ Ben Worthen, 'Cisco To Buy Meraki For \$1.2 Billion' [2012] The Wall Street Journal.

¹⁰⁰ <<https://www.samsara.com/about>> accessed 24 May 2017.

¹⁰¹ <<https://meraki.cisco.com/de/company/cisco-acquisition-faq>> accessed 24 May 2017.

rapidly growing footprint in the area of social media.¹⁰² In 2011, the CEO and founder of Buddy Media, Michael Lazerow, was named by Ernst and Young to be “New York Entrepreneur of the Year”. The company was also the most award winning social enterprise software business.¹⁰³ After the M&A process, the founder of Buddy Media joined Salesforce and its management team as Chief Strategy Officer till the year 2015. Furthermore, key employees of Buddy Media were integrated in Salesforce Inc. and worked there to further promote the ideas of the startup e.g. after the takeover, the former Director of Product Development worked as Senior Product manager for Salesforce Marketing Cloud, also the former Chief Client officer stayed with Salesforce and the Vice president for Business Development as well.¹⁰⁴ In the years after the acquisition of Buddy Media, Salesforce’s annual revenue run rate increased from \$2 billion up to \$6 billion.¹⁰⁵ Additionally, in 2016, Forbes Magazine announced Salesforce to be among the most innovative companies in the world, that was the 6th time/year in a row. Salesforce emphasizes a culture of progress and the company seems to know what it takes for a big business to stay movable and innovative in a successful manner.¹⁰⁶ The startup Buddy Media was fully integrated into Salesforce. Its brand does not exist anymore.

3.Extend Health/ Tower Watson: Successful Merger/ Integration

In 2012 Tower Watson, a global services firm, announced the acquisition of Extend Health, a provider of health-care insurance services, for \$435 million, to broaden up its Retiree Benefit Services. Extend Health was founded in 2002 and during the time of the M&A deal it was run as the biggest private Medicare exchange. With the takeover of the startup, Tower Watson expected to profit from the company’s innovative and best-in-class health care solutions. The two entities agreed that Extend Health will be operated as a new business line within Tower Watson and therefore that the brands will be operated separately. That is still the case today. Extend Health still runs its own Facebook profile and also its own homepage, only

¹⁰² Drew FitzGerald and Kristen Jones, 'Salesforce To Acquire Buddy Media For As Much As \$745 Million' [2012] The Wall Street Journal.

¹⁰³ <<http://ir.comscore.com/releasedetail.cfm?releaseid=631045>> accessed 24 May 2017.

¹⁰⁴ <<https://www.linkedin.com>> accessed 24 May 2017.

¹⁰⁵ <<https://www.linkedin.com/in/lazerow/>> accessed 24 May 2017.

¹⁰⁶ Alex Konrad, 'Salesforce Innovation Secrets: How Marc Benioff's Team Stays On Top' [2014] Forbes Magazine.

under a different product name, namely “OneExchange”. After the acquisition, the Co-Founder and CEO of Extend Health was kept in the company and it was announced that he will lead the new “Exchange Solutions line”.¹⁰⁷ Key employees of Extend Health still work within the new business segment e.g. the Chief Operating Officer kept his position in the new “Exchange Solutions” branch, the same is true for the Chief Marketing Officer and Chief Technology officer.¹⁰⁸ After the takeover, Tower Watson was named to be a “Global Outsourcing Leader” and also the “Best Leader in Revenue Growth”. The company was also awarded for its outstanding program for fostering innovation.¹⁰⁹

4.Gaikai/ Sony Interactive Entertainment: Successful Merger/ Integration

The cloud-based gaming startup Gaikai, founded in 2008, sold its business to Sony for \$380 million. Gaikai made it possible for its users to play web-games only by streaming them via broadband and without downloading the content. Consumers did not need advanced computers, instead gaming worked across the web. Sony was especially interested in Gaikai’s technological potential and strength as well as in its talent for engineering. With the takeover, Sony was able to offer an unprecedented and innovative experience of gaming. At the time of the acquisition, it was not clear, at which time and how the technology of Gaikai would be realized within the products of Sony.¹¹⁰ After the takeover, Gaikai was kept completely separated. It still operates as if it has not been acquired. On the website, there is no indication visible that Sony Interactive Entertainment is the new owner, only the firm history informs about the happenings in 2012. The founders and key employees of the company are still working in their former positions at Gaikai and are now part of the Sony family. The team is keen to work even harder to offer new services and driving products.¹¹¹ Gaikai promotes a future of inventive activity. A quote of the CEO of Gaikai shows in the best way, how innovation driven and ambitious the startup is: *“We’re honored to be able to help Sony rapidly*

¹⁰⁷ <<https://www.towerswatson.com/en/Press/2012/05/Towers-Watson-to-Acquire-Extend-Health-in-Move-to-Expand-Retiree-Benefit-Services>> accessed 24 May 2017.

¹⁰⁸ <<http://www.bloomberg.com/research/stocks/private/people.asp?privcapId=9708922>> and <<https://www.linkedin.com>> accessed 25 May 2017.

¹⁰⁹ <<https://extendhealth.wordpress.com/2015/04/>> accessed 25 May 2017.

¹¹⁰ Keith Stuart, 'Sony Buys Cloud Gaming Company Gaikai For \$380M' [2012] The Guardian.

¹¹¹ <<https://www.gaikai.com/#!/people>> accessed 25 May 2017.

*harness the power of the interactive cloud and to continue to grow their ecosystem, to empower developers with new capabilities, to dramatically improve the reach of exciting content and to bring breathtaking new experiences to users worldwide.”*¹¹² In 2012 Gaikai even won a Guinness World Record for “world’s most widespread cloud gaming network.”¹¹³

5.SeaMicro/ Advanced Micro Devices: Successful Merger/ Integration

In 2012, Advanced Micro Devices (AMD) acquired for an amount of \$350 million the startup firm SeaMicro, manufacturer of microservers. In the year before the M&A deal, SeaMicro won the “Rising Star award” and some other awards for “Best Electronic Design” as well as for “Best Emerging Cleantech Company”.¹¹⁴ After the acquisition of the startup, all of the three founders remained in the company and became part of the AMD team. Also SeaMicro's key persons, that pushed the entity to its success, stayed within the merged companies.¹¹⁵ As a consequence of the takeover, SeaMicro further acted distinctly from its acquirer and kept its brand name. On the homepage of SeaMicro, both brands were published, “AMD” and “SeaMicro”.¹¹⁶

3.1.5 Case Study Analysis

M&A transactions are indeed an appealing concept to achieve firm growth and to foster future innovation, but several studies have revealed the opposite: most mergers and acquisitions fail.

When having a look at the Top 10 M&A transactions in 2012, the performed case study leads to the following findings: Companies that were involved in a successful merger or successful acquisition show to have a special awareness of the importance, corporate culture plays in the post-acquisition process.

¹¹² John Gaudiosi, 'Sony Computer Entertainment Acquires Cloud Gaming Company Gaikai For \$380 Million' [2012] Forbes Magazine.

¹¹³ <<https://twitter.com/dperry/status/223557758178430978>> accessed 26 May 2017.

¹¹⁴ <https://www.seamicro.com/company>> accessed 26 May 2017.

¹¹⁵ <<https://www.linkedin.com>> accessed 26 May 2017.

¹¹⁶ <https://www.seamicro.com/company>> accessed 26 May 2017.

Right at the start, it has to be pointed out that it was not possible to perform an analysis in the case of Temple-Inland/ International Paper. Therefore, the total number of deeply analyzed companies is 9.

In 5 out of 10 companies, key employees joined the working team of the new corporation or were left in place after the takeover. In 2 cases of “Merger Success”, key employees were exchanged but nevertheless, top teams were kept intact.

Due to language barriers, in the case of Tudou Holdings/ Youku Inc., it was not possible to ascertain the situation of Tudou Holdings’ key employees after the M&A, as the homepages of both companies, as well as most online information, were mainly in Chinese language. After the takeover, both brands were left to operate completely separate, which leads to the reasonable assumption, that key people were left in place. It can be point out, that the founder of Tudou Holdings became part of the board of directors of the new corporation.

Furthermore, it can be seen that 6 out of 10 corporations chose to keep the operations completely separate after the takeover and chose a path of “non-integration” to stipulate further growth and innovation. In the remaining 3 cases, the acquired companies were not fully integrated but at least they were allowed to operate in a distinct manner within the new corporation e.g. within own business lines or under their own brand-name.

Given the fact that the Top 10 M&A transactions in 2012 were all well-established companies, existing in the industry since a very long time, findings about the integration of the founder of the company were simple not possible or appropriate.

The one and only case of “Middling Success” shows, that even there the companies tried to emphasize the role of key employees and to separate the operations after the M&A.

Compared to this, the analysis of the Top 5 startup transactions in 2012 provides an even more striking result when it comes to the integration process.

In 5 out of 5 startup companies, the key employees were left in place and in 5 out of 5 startups, the founders of the firm stayed in the corporation after the M&A process.

In 4 out of 5 startup companies, the operations were kept completely separate, as if no takeover had been performed.

All of the analyzed companies show to know about the importance of keeping up with innovation and about the relevance of fostering technological developments. Especially startups expose to be committed to an entrepreneurial spirit, an incentive that seems to continue even after taking part in an acquisition process. For startups, acquisitions are a chance to further grow and to enhance their new technologies and disruptive ideas.

Overall, the deep case study analysis of the Top 10 companies and Top 5 startups, strengthens the argument that the “right” corporate culture plays a significant role in fostering innovation and future growth. Successful companies actually show that they do organize their integration process in a particular way by supporting key employees of the acquired company and by knowing about the potential benefits of keeping operations separately.

The case study indicates, that winning and innovative companies do not enforce the merger of cultures, instead acquired companies are allowed to keep their own identity and firm culture.

Last but not least, especially for startups, the role of the founder of a company is of special importance. The most innovative companies all tend to know about the positive effects on future inventive activity when keeping the founders engaged after a M&A.

3.2 Maintaining innovative: How to keep the Culture of Innovation alive

*“Whatever the context, successful innovation is based on fostering a culture where enterprising behaviors are encouraged and rewarded”.*¹¹⁷

-Lorraine Warren, Professor in Innovation and Entrepreneurship-

Once a company has been acquired, once the process of merging is completed and the barriers of integration are passé, the corporation’s daily routine starts and future innovation might be put on hold. In fact, many mergers and acquisitions fail pathetically. Often, recently attained employees either surrender and leave the acquired company or they get pushed out. It is vital for the future success of a firm to induce anticipated steps to keep the culture of innovation alive and to foster future innovation, there are some key factors that will help a firm to flourish its creative power.¹¹⁸

Understand the acquired business: As a basic rule, the acquirer should never forget that he, in one or the other way, wanted to work with the merged/acquired company and believed in the firm’s visions and potential value. Therefore, it is important to show some trust in the skills and mindset of the acquired firm e.g. by being confident that the acquired corporation knows its customers, organization and rivals best. This will help to prevent bad decisions by the acquirer only because he does not understand the acquired business.¹¹⁹

Know the value of a company’s founder/entrepreneur: It can be difficult to keep founders of a startup committed to the acquirer’s “new company”, as entrepreneurs often do not share the ideas and concepts of big firms. But keeping the founder of a startup company engaged after the merger or acquisition can have a crucial and positive impact on the future innovation process. Usually, founders are sure about one thing and that is, that only they can direct and lead their startup to success. The initial idea and concept of the merged/ acquired company was created by the founder and only she/he has the entire and overall insight about the innovative product, service or business model. Founders have the desire to build something great, something bigger and disruptive. This is a benefit every corporation should be aware of

¹¹⁷ '5 Ways Your Business Can Foster Innovation | Rednews' (Westpac.co.nz, 2017) <<https://www.westpac.co.nz/rednews/business/5-ways-your-business-can-foster-innovation/>> accessed 17 March 2017, p.1.

¹¹⁸ Ibid.

¹¹⁹ Prashant Kale, Harbir Singh and Anand Raman, 'Don't Integrate Your Acquisitions, Partner With Them' [2009] Harvard Business Review, p.10.

and should know how to value.¹²⁰ There are companies, that know about the importance of keeping the founder in the firm after the M&A process and that know about the important role of the entrepreneur within a firm. Some corporations adopted e.g. a co-CEO system, to keep the founder interested and integrated. They leave him/ her in place as CEO and additionally bring in an expert executive to share the functions. Oracle, Chipotle and Whole Foods all made use of such a system and believed in the power of keeping the founder not only in the company, but at the top, as a lead person, that will inspire and push the corporation also in the future.¹²¹

Cherish and hold on to key people, keep top teams intact: Inventors from the acquired company may lack the incentive to be as productive for the new firm e.g. because they may not get the same reward or recognition as in the past. But employees are the heart and soul of a company and are a crucial part of the innovation process.¹²² They are the creative brain of a firm and help to realize disruptive ideas. Often one element of the takeover price is not only the corporation's assets, but also its talents and team of experts. Therefore, it is important to understand the employee's environment they are working in when being acquired, to keep their heart committed after the takeover and to offer key employees the opportunity to further develop their ideas. Having a look at the juridical side, there are interesting legal possibilities to motivate employees to further stay committed after a M&A, as Ted Wang, attorney at Fenwick& West, whose clients are among others Facebook, Twitter and Dropbox tells us: *"It is very common to have part of the acquisition price paid in some form of retention, where critical employees must stay to earn it"*. That is one way of holding on to key people.¹²³

Do not rush the integration process: Depending on the operating companies and the circumstances, sometimes the best process of integration is the kind of go slow.¹²⁴ Today a new concept of "non-integration" can be observed among some multinational M&A transactions. *"Don't integrate your acquisitions, partner with them"*. It can be beneficial for the structure and future collaboration of a corporation to do not rush the process of integrating the new

¹²⁰ Noam Wasserman, 'The Founders's Dilemma' [2008] Harvard Business Review <<https://hbr.org/2008/02/the-founders-dilemma>> accessed 28 March 2017, p.3.

¹²¹ Richard Feloni, 'Why Major Companies Like Oracle, Whole Foods, And Chipotle Have 2 Ceos' (*Business Insider*, 2014) <<http://www.businessinsider.com/why-major-companies-have-2-ceos-2014-9?international=true&r=US&IR=T>> accessed 28 March 2017, p.1-2.

¹²² Sudi Sudarsanam, *Creating Value From Mergers And Acquisitions* (2nd edn, Pearson Education Limited 2010), p.719.

¹²³ Adam Bluestein, 'Keeping Innovation In The Mix After The Merger' [2014] *INC. Magazin*, p.1-2.

¹²⁴ *Ibid*, p.1

business a company has bought, but to give the merged or acquired party some “free play” and thereby allow them to continue their operations independently. Additionally, the M&A process often destructs ongoing operations in both companies and hidden costs of establishing mutual procedures can outweigh the advantages of structural integration. Focus on the reasons for the takeover. Each organization should stick to the things it does best (and already did best before the M&A) and should learn how to harness the new potential the M&A transaction created e.g. by exploiting the additional resources, using new capabilities and enjoying new technology. This strategy of partnering and keeping a takeover structurally separated, can make it easier for the companies to create a setting, where people enjoy to share their knowledge and ideas.¹²⁵

Therefore, create the right ecosystem: As already stated before, creating the right culture after a merger or acquisition is a true challenge. But the “right” corporate culture is necessary to foster future innovation. The two companies have to become a new ecosystem, where the merger of cultures will not be enforced, but instead the corporation of the acquirer will build the core of the ecosystem, while the newly acquired company will be attached to it. This will enable a newly acquired startup to keep its own identity and at the same time to profit from the benefits provided by the other merger party. Benefits that will occur when being part of a bigger ecosystem and when being associated with an established company. Therefore, without killing the entrepreneurial culture of the startup and by allowing to still operate as a kind of “separate entity”, the acquired company will be ready and willing to become part of a new innovative system.¹²⁶

Sometimes, let them stay on the spot: In some cases, the creative innovation process is also highly influenced by the location the business is operating in. Staying in a familiar environment can be vitally important for further profiting from synergy effects of an acquired company and for staying a resident genius. Therefore, it can be beneficial for the future enterprising behavior to let the corporation remain where it is already located.¹²⁷

Consider a culture of “open innovation”: Innovative and disruptive ideas do not always origin within a firm and depending on the circumstances, it can be beneficial to use external technologies and ideas and open up to a culture of open innovation in order to advance

¹²⁵ Prashant Kale, Harbir Singh and Anand Raman, 'Don't Integrate Your Acquisitions, Partner With Them' [2009] *Harvard Business Review*, p.1-5.

¹²⁶ Erik P.M. Vermeulen and Mark Fenwick, 'Seven "Corporate Venturing" Strategies To Foster Innovation' [2016] *TILEC Discussion Paper*, p.18-19.

¹²⁷ Adam Bluestein, 'Keeping Innovation In The Mix After The Merger' [2014] *INC. Magazin*, p.1-2.

a firm's own innovative projects. The intensity of disruptive technology increases and being able to afford technology without help from the outside can be costly.¹²⁸ Consider e.g. research partners, publicly open talent scouting or sharing your ideas between several collaborative partner firms.¹²⁹

Get the little things right: A successful integration process is also heavily dependent on the wise handling of little things. All the little things together form the framework of the big things that matter for a company after a takeover. When thinking about integration, the merged companies should start with basic considerations about e.g. how to organize the employee's first meeting, how many steps are required to approve a decision or how much control do the employees have over their working place and working time? These little things do matter to complete the M&A process and to create a positive environment where innovation will be able to grow.¹³⁰

Go for the best practice: To foster future development and to add value for the merged companies, synergies have to be used. The best method to do so is by sharing (technical) know-how and by considering the best procedures, practices and ideas from both firms, before deciding in a second step which approach to choose.¹³¹ Only when combining the very best practices and innovative visions from both companies, it will be possible to create something bigger.

And: Do not forget the company's vision and know the risks: It is important to concentrate on the company's future vision on a long term basis and to figure out where innovation will fit in that concept. Furthermore, it is vital to accept that being innovative can cause some risks and that the merged firms will have to find a way to handle those risks together. Remember why the M&A transaction happened in the first place. The new organization was formed for a reason, to add value for the company, to foster future creativity, to establish new

¹²⁸ Philipp Herzog, *Open And Closed Innovation, Different Cultures For Different Strategies* (1st edn, Gabler-Verlag/Springer 2008), p.21-24.

¹²⁹ Atte Isomäki, 'Types Of Open Innovation' (*Viima.com*, 2016) <<https://www.viima.com/blog/types-of-open-innovation>> accessed 28 March 2017, p.3-5.

¹³⁰ Adam Bluestein, 'Keeping Innovation In The Mix After The Merger' [2014] *INC. Magazin*, p.1-2.

¹³¹ Prashant Kale, Harbir Singh and Anand Raman, 'Don't Integrate Your Acquisitions, Partner With Them' [2009] *Harvard Business Review*, p.6.

ways to grow, to develop the recent recreation process or to be able to reach the next step of innovative activity within a corporation.¹³²

Last but not least we should keep in mind that building a long lasting culture of innovation takes a lot of time, patience, commitment, encouragement and a frame where every single member of a corporation feels free and empowered to take part in a positive and meaningful process by contributing own ideas, thoughts and actions.¹³³

¹³² '5 Ways Your Business Can Foster Innovation | Rednews' (*Westpac.co.nz*, 2017) <<https://www.westpac.co.nz/rednews/business/5-ways-your-business-can-foster-innovation/>> accessed 17 March 2017, p.1-3.

¹³³ Nicole Morrow and Omoefe Abugo, 'Building And Maintaining A Culture Of Innovation | Evans Incorporated' (*Evansincorporated.com*, 2015) <<http://www.evansincorporated.com/building-and-maintaining-a-culture-of-innovation/>> accessed 21 March 2017.

IV. Excursus: Law and Innovation

4.1 General considerations

When confronting law with innovation it is difficult and almost impossible to deny that law is always one step behind. Considering the enactment and promotion of innovation policy there is great difficulty with anticipating present developments and with predicting future paths and directions of innovation. The task of establishing forward-looking statutes and regulations, that will not be obsolete until the date they will become effective and enforceable, is a handicap law has to overcome.¹³⁴

Particularly in Europe this mission has shown to be challenging to realize due to multi-level governance, which regularly delay and slows down the process of policy-making. Future trends do not seem to simplify things. Innovation is faster than ever, it operates on a global basis, it connects countries, people and entities all over the world and it is more “open” than in the past. Innovation enters into areas and fields it has not operated before and therefore it claims new commitments. Today innovation demands a sophisticated skill set, more and deeper global collaboration between public parties and private players and the supervision of social needs.¹³⁵ These developments make it necessary for law to be fast in implementation, flexible in its application and actionable on a global, national, regional and local basis.

The correlation between regulations, rules and innovation is diverse and sophisticated and demands a case-by-case expertise. Depending on its content, law can stimulate or hinder innovation and entrepreneurship.¹³⁶

For a better understanding I would like to have a closer look at the relationship of law and innovation in two legal fields, that are from special importance for my master thesis. First, merger control in Europe, the U.S, and second, patent law. Do these regulations impede or support the process of innovation?

¹³⁴ Massimiliano Granieri and Andrea Renda, *Innovation Law And Policy In The European Union, Towards Horizon 2020* (1st edn, Springer 2012), p. 2.

¹³⁵ Ibid.

¹³⁶ Jaques Pelkmans and Andrea Renda, 'Does EU Regulation Hinder Or Stimulate Innovation' [2014] CEPS special report No.96, p.26.

4.2 EU-Merger Control

In general, it can be said that EU regulation has become more favorable for future innovation e.g. by making the regulations and visions of the EU more market driven.¹³⁷ In an address to the European Parliament on the 15th of July 2014, President Juncker emphasized that “*Jobs, growth and investment will only return to Europe if we create the right regulatory environment and promote a climate of entrepreneurship and job creation. We must not stifle innovation and competitiveness...*”.¹³⁸ Also the European Commission itself stresses the importance of future innovation for example in its Competition Policy Brief of April 2016. As innovation is an essential factor for higher productivity and growth in the EU, the regime of EU merger control tries to both take the negative and also positive effects of innovation into account when deciding about the legitimacy of a merger. In short: the EU framework for merger control enables and allows the European Commission to evaluate the impact of M&A on (future) innovation. When investigating a merger case, concerns about the harm of competition induced by decreased innovation, increased prices and shortening of the output will be taken into account equally. The substantive test used by the Commission, the *SIEC test*, evaluates if a merger will *significantly impede effective competition*, it assesses all aspects that can cause harm to competition e.g. also harm to consumers arising from impeding innovation. Having a look to the guidelines, in the European Commission’s Horizontal Merger Guidelines (HMG) it is stated that one of the effects that has to be evaluated in merger control cases is “the effect on innovation”. When having a look at the Non-Horizontal Merger Guidelines (NHMG), which apply for vertical or conglomerate mergers, a similar way for considering innovation is proclaimed. Thus it can be said, that the regulations are aware of the importance of innovation considerations. There is recent *case law*, where the Commission already decided about the prioritization of innovation and therefore, that the horizontal mergers decreased and harmed innovation competition e.g. in *GE/Alstom* or *Deutsche Börse*. In other non-horizontal-merger judgements the merged firm’s competitor’s ability to further stay innovative and innovate was

¹³⁷ Jaques Pelkmans and Andrea Renda, 'Does EU Regulation Hinder Or Stimulate Innovation' [2014] CEPS special report No.96, p.14.

¹³⁸ Gavin Bushell, 'EU Merger Control And The Innovation Theory Of Harm: Fake News? - Kluwer Competition Law Blog' (*Kluwer Competition Law Blog*, 2017) <<http://kluwercompetitionlawblog.com/2017/03/03/eu-merger-control-and-the-innovation-theory-of-harm-fake-news/>> accessed 25 April 2017.

examined by the Commission e.g. in *Intel/Mc Afee*, *ARM/Giesecke & Devrient/Gemalto Joint Venture*, *Telefonica UK/Vodafone UK/Everything Everywhere Joint Venture* and *Intel/Altera*. Not only does the EU merger control system concentrate on innovation, but it also recognizes and emphasises the synergies that can be caused by mergers and therefore will foster innovation efficiencies and will balance anti-competitive effects like in *TomTom/TeleAtlas*.¹³⁹ A CEPS (Centre for European Policy Studies) Special Report from 2014 had a look at the sophisticated relationship between EU Merger Regulations and innovation on a case study basis and found that a considerable transformation of the nature of EU Regulations can be observed. Furthermore, the report showed that the quality of EU Merger Regulations had improved and that the current regulations show to be a strong incentive for innovation-growth and tend to have a positive and sustainable effect on the innovation-rate in the European Union.¹⁴⁰ Compared to flexible regulations, that promote and enable innovation, regulations that are more prescriptive tend to impede inventive activity, which is why the removal of restrictiveness within the merger regulations will also play an important role in the future.¹⁴¹ Nonetheless, the report suggests a more specific “innovation test” for smaller corporations and startups, which should be included in the guidelines for evaluating the impact of mergers, in a more concrete way. These companies have shown to be the most important actors in today’s innovation ecosystem, which is why they should be considered in the most beneficial way possible.¹⁴²

4.3 U.S. Antitrust Law

From the beginning, technology and innovation were a concern of traditional antitrust laws in the United States (U.S.), especially in the late 19th century, when big companies emerged. “Antitrusters” were concerned about the exorbitant growth of these companies but also about their innovative pace.¹⁴³ Also today, antitrust law knows about the importance of innovation for economic growth and consumer welfare. A section in the U.S. antitrust agencies’

¹³⁹ 'EU Merger Control And Innovation', Competition policy brief (European Commission 2016), p1-7.

¹⁴⁰ Jaques Pelkmans and Andrea Renda, 'Does EU Regulation Hinder Or Stimulate Innovation' [2014] CEPS special report No.96, p.1

¹⁴¹ Ibid. p.14.

¹⁴² Ibid. p.27.

¹⁴³ David M. Hart, 'Antitrust And Technological Innovation' (1999) Volume XV Issues Magazine.

2010 Horizontal Merger Guidelines emphasizes innovation effects and states, that not only a merger that would cause direct effects on pricing or quality would harm consumers, but also a merger that would impede innovation and decrease the rate of inventive developments. Recent cases also show the incentive of *The Federal Trade Commission (FTC)* to take potentially disruptive effects of new inventions and technologies into account when having a look at merger cases and when analyzing them e.g. acquisition case of EagleView Technology by Verisk Analytics (2014) or merger case between Steris and Synergy (2015). In recent merger cases, also the U.S. Department of Justice has focused on innovation considerations when taking enforcement actions.¹⁴⁴

4.4 Patent Law and Policy

It is an interesting consideration if patent rights really promote innovation or slow down the incentive of people to get creative. Historic records show, that in the past, there was little doubt that an operating patent system is vital for economic success and growth. Also today many economic studies of the “real-world effect” of patent law on innovation mark the beneficial impacts of patenting. They claim that patents have *ex ante* a positive influence on innovation as they encourage people to be create and to invent to get a reward for that. This is due to the fact, that invention is driven, first and foremost, not by mastermind, luck or coincidence, but by markets and the chance of making good money when patenting a new and promising technology.¹⁴⁵ Additionally, research has shown that in countries, where there is no protection of technological inventions through patent law, people have a higher, almost exorbitant, incentive to copy inventions and no motivation to start being creative for themselves.¹⁴⁶ Even a study by the Organization for Economic Co-operation and Development (OECD) in 2008 found that “stronger levels of patent protection are positively and significantly associated with inflows of *high-tech* product [and] expenditures on R&D”. Economists also presented interesting evidence that the existence of patents promotes the process of knowledge

¹⁴⁴ Terrell McSweeney, 'Understanding Innovation And Its Role In U.S. Merger Review', *18th International Conference on Competition* (2017), p.2-5.

¹⁴⁵ e.g. studies from economists like Arrow (1962), Griliches (1963), Schmookler (1966), Kitch (1977), Reinganum (1981), Tirole (1988), Klemperer (1990), Romer (1990), Giulbert and Shapiro (1990), Grossman and Helpman (1991), Aghion and Howitt (1992), Scotchmer (1999), and Gallini (2002).

¹⁴⁶ e.g. a study from Barro (1995).

exchange.¹⁴⁷ All these studies show the positive impact of patent law for future innovation.¹⁴⁸

Nevertheless, since a very long time, the relationship of patents and innovation has been a controversial topic in many debates. There are opinions that strongly disagree with the alleged beneficial impact of patenting on innovation and therefore despise the system. They claim that, disregarding some exceptional cases like e.g. medicines, the whole society would be better off without a patent system that is as malfunctioned and disastrous as our system is today. For them, today's patent laws failed long ago, since they only increase the number of patents being filed, but not their quality as a high amount of the issued patents, between 40 and 90 percent, are never used in practice. Additionally, they argue that there is only poor evidence that strong patent regimes foster future innovation.¹⁴⁹ Also a study released in *The Columbia Science and Technology Law Review* questions the traditional positive view on patenting and claims that patents indeed may hold back new technological inventions, economic activity, growth and social prosperity.¹⁵⁰

Overall, it is unquestioned, that today's existing patent laws do have their deficiencies and are perfectible, but this does not mean and imply that they suppress innovation. Future developments will show if the traditional view on the positive effect of patent law on inventive activities and the studies supporting these views, will be revised, but today, on long-term, patents show to be highly correlated with progressive innovation, economic growth and the exchange of knowledge.¹⁵¹

¹⁴⁷ e.g. a study from Acemoglu, Bimpikis, and Ozdaglar (2008).

¹⁴⁸ Marshall Phelps, 'Do Patents Really Promote Innovation? A Response To The Economist' [2015] Forbes Magazin, p.1-3.

¹⁴⁹ 'A Question Of Utility' (*The Economist*, 2015) <<http://www.economist.com/node/21660559>> accessed 23 April 2017.

¹⁵⁰ Dr. Andrew W. Torrance and Dr. Bill Tomlinson, 'Patents And The Regress Of Useful Arts' [2009] *The Columbia Science and Technology Law Review*.

¹⁵¹ Marshall Phelps, 'Do Patents Really Promote Innovation? A Response To The Economist' [2015] Forbes Magazin, p.2.

V. Conclusion

Impact of Mergers and Acquisitions on Innovation

Acquiring innovation through mergers and acquisitions has become a common strategy for corporations to further enhance their existing products and services, to reach new and promising areas of doing business or to get new technologies and disruptive ideas from creative thinkers.

The rate of M&A activity has increased globally and never before, it was as important for companies to stay innovative to keep up with their competitors or even to stay alive.

Stating the fact that M&As are generally a good idea to achieve firm growth and innovation success, several studies have revealed that most of the takeovers fail pathetically and destroy shareholder value in the long term. When having a look at the reasons for M&A failure, it has shown that an unsuccessful integration process and the wrong corporate culture are the main causes for the poor M&A performance in recent years.

Therefore, the “right” corporate culture and a successful integration process are crucial factors when determining the future progress of a corporation.

When it comes to the integration process of the different cultures of the merging parties, it has been revealed that winning companies and the most innovative firms have a special awareness for corporate culture. They know about the importance the “right culture” plays for merger success and therefore emphasize this crucial stage of any M&A deal.

Instead of attaching the acquired company to their own scheme, they think about what will be best for firm growth and which sort of culture will be needed to foster innovation in the future.

Winning corporations do not enforce the integration of different cultures. In fact, they have the understanding that it can be less beneficial for future inventive activity and growth, to absorb the new firm into the acquirer’s company than to allow the acquired company to operate separately, as if it has not been acquired before. Winning companies let acquired entities or startups keep their own, unique (entrepreneurial) identity. This way of “non-integration” has shown to be advantageous and strongly contrasts with the traditional understanding of M&A integration. There, the practice of assimilating the company or startup into the established

structures of the acquiring corporation has been seen as the normal and usual way of combining the corporate cultures of the merging parties.¹⁵²

Startups should be allowed to keep their own identity and at the same time should have the opportunity to become part of a larger ecosystem, where knowledge exchange, potential growth and exploiting synergies are bigger and therefore create value for both sides, the acquirer and the acquired company.

It has been demonstrated, that another important part of the autonomous identity of every company are the key employees and founders of a firm. Employees are the heart and soul of every corporation, which is why an acquirer should know about the benefit of keeping top teams intact and should know how to make sure that key employees stay committed and therefore further provide the corporation with their sophisticated expertise and innovative ideas and strength.

Acknowledging the importance of keeping the founder(s) engaged in the corporation after the takeover has shown to be particularly essential in case of innovative startups. The founder of a startup originally delivered the idea and provides the company with his/her visions and innovative mindset. Furthermore, founders are the driving force behind a successful startup and have the urge to create something new and disruptive.

Summarized it can be said, that beside the fact that it can be beneficial for corporations to keep their operations separately after a M&A, winning companies have shown that when founders and key employees join the team of the new company, future growth and innovation success will be achievable.

Therefore, companies have to make sure to attract entrepreneurial spirits and have to create a corporate culture and environment, where these people feel free to contribute to further inventive activity and share their creative ideas. Understanding the acquired business and the people working there will be decisive and essential as well.

Merger regulations can either hinder or promote future innovation. In general, it can be said, that these legal fields have become more favorable towards innovation but in order to foster future technological developments, these regulations have to make sure to facilitate individual analyses and special considerations for smaller companies and startups, as these players are important contributors to the today's innovation curve.

¹⁵² Erik P.M. Vermeulen and Mark Fenwick, 'Seven "Corporate Venturing" Strategies To Foster Innovation' [2016] *TILEC Discussion Paper*, p.18-19.

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II. Appendix

PitchBook		All Columns				
Search Criteria:		Deal Date: From: 01-Jan-2012, To: 31-Dec-2012; Deal Option: Search on a full transaction; Deal Type: M&A > by Strategic acquirers; Include Full Exit; Exit Status: Completed; Announced; Backing Status: Corporate-backed/Acquired, Other Statuses > Formerly backed > Formerly VC-backed;				Downloaded on: 5-7-2017
						Created for: Erik Vermeulen, Tilburg University
Company Name	Primary Industry Group	Current Business Status	Deal Size	Business Status	Investors	Company Country
Medco Health Solutions	Healthcare Services	Profitable	29.100,00	Profitable	Express Scripts Holding (George Paz)	United States
RBS Aviation Capital	Other Financial Services		7.300,00		Sumitomo, Sumitomo Mitsui Financial Group	Ireland
Tudou Holdings	Media	Profitable	4.800,00	Profitable	Youku Tudou	China
HGST	Computer Hardware	Generating Revenue	4.300,00	Generating Revenue	Western Digital	United States
Lucasfilm	Media		4.062,03		The Walt Disney Company (Robert Iger)	United States
Netlogic Microsystems	Semiconductors	Generating Revenue/Not Profitable	3.600,00	Generating Revenue/Not Profitable	Broadcom (Acquired)	United States
Temple-Inland	Forestry	Profitable	3.500,00	Profitable	International Paper Company (John Faraci)	United States
Human Genome Sciences	Healthcare Devices and Supplies	Generating Revenue	2.800,00	Generating Revenue	GlaxoSmithKline (Andrew Witty)	United States
Elster Group	Computer Hardware	Generating Revenue	2.300,00	Generating Revenue	Melrose Industries (Christopher Miller)	Germany
CFAO	Commercial Products	Profitable	2.096,88	Generating Revenue	Toyota Tsusho	France
Meraki	Communications and Networking	Generating Revenue	1.200,00	Startup	Cisco Systems	United States
Buddy Media	Software	Startup	800,00	Startup	Salesforce	United States
Extend Health	Insurance	Startup	435,00	Startup	Towers Watson	United States
Gaikai	Software	Startup	380,00	Startup	Sony Interactive Entertainment	United States
SeaMicro	Software	Generating Revenue	350,00	Startup	Advanced Micro Devices	United States

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Appendix 1: Biggest M&A deals in 2012 by deal size