

## RESEARCH BRIEFS

# RUSSIAN ACQUISITIONS: IS THERE A PATH TO SUCCESS?

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### RESEARCH QUESTIONS

Estimates suggest that about 60% of mergers and acquisitions (M&As) eventually fail. Indeed, shareholders typically bid down share prices when management announces an acquisition. So why do managers initiate so many M&As when, on average, they fail? Many answers have been proposed: Managers like to build personal empires, managers don't know what else to do with free cash flow, or they over-estimate the potential benefits and underestimate costs. Sometimes M&As are strategically necessary for survival: eat or be eaten. Finally, while most M&As end badly, not all do—some managers effectively capitalize on synergies with target firms, learn from them, or use targets to build market power. Regardless, it shouldn't come as a surprise that most of what we know about M&As has been gleaned from big, publicly traded American firms.

Naturally, this leads one to question whether M&A success rates are better elsewhere. And if the goal is to understand whether M&As fare better elsewhere, then it might make sense to tackle that question in a place that is very different from the United States. This is exactly what Oliver Bertrand (SKEEMA Business School in France and also St. Petersburg University in Russia) and Marie-Ann Betschinger (Higher School of Economics at Pokrovski Bulvar in Russia) did in examining the performance results of acquisitions by Russian firms. In their study, Bertrand and Betschinger set out to see if Russian firms had the same poor track record as their American counterparts. Moreover, they also wanted to learn if there were any conditions under which Russian acquirers did particularly well. Russia is important for a number of reasons. It is one of the "BRIC" nations, which also includes Brazil, India, and China, which Goldman Sachs has identified as having rapidly

expanding economies—so much so that they will be among the world's economic superpowers in the coming decades. Plus, Russia accounted for 14% of emerging market M&A activity in 2010.

### STUDY DESIGN AND METHOD

Bertrand and Betschinger studied over 600 Russian acquisitions involving more than 2,000 firms that occurred between 1999 and 2008. They focused on acquisitions where more than 50% ownership in the target firm was acquired, since achieving that threshold meant that the acquirer could control the target's strategic direction. Acquisitions increased over time during their study, with the exception of 2008 when Russia was hit by the global economic crisis. Specifically, while only 18 deals were completed from 2000 to 2002, the number rose to 108 from 2003 to 2006 and 340 in 2007, before falling back to 308 in 2008.

Using this sample of acquisitions, Bertrand and Betschinger examined the relationships among different types of acquisitions and firm performance. They measured firm performance by using return on assets (ROA) while also looking at certain characteristics of the deals themselves, the acquiring firms, and the industries involved to determine if they could identify cases where Russian acquirers performed better.

### KEY FINDINGS

Bertrand and Betschinger's main finding was that Russian acquirers don't do any better than U.S. acquirers. So although Russian and other emerging market acquirers might have different reasons for some of their acquisitions, such as gaining access to technologies from more developed nations, Russian performance outcomes were no better. On average, ROA declined by about one-half of a percentage point for each acquisition, and the more acquisitions, the lower the performance!

To determine whether certain deals did better than others, Bertrand and Betschinger looked specifically at deal characteristics. They divided targets according to whether or not they were located in former

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Soviet bloc countries, and whether or not the targets were in the same industry. As it turned out, acquisitions within the Soviet bloc and within the same industry but outside of the bloc tended to be neutral in their ROA impact (no longer negative, but not particularly positive either). Bertrand and Betschinger suggested that the lack of negative effect for these selected groups of acquisitions implies that Russian firms, like their U.S. brethren, tend to do better as acquirers when they pick targets that are close to home and/or are in industries they know.

After deal characteristics, Bertrand and Betschinger looked at acquirers' size and acquisition experience. They found that for domestic targets, inexperienced acquirers destroy more firm value than do "serial" acquirers. This pattern did not hold, however, for international acquisitions. In other words, although experience seems to matter in acquisitions, it appears hard to transfer across borders. In fact, the only time Bertrand and Betschinger found that performance turned positive was when big acquirers with lots of experience conducted domestic acquisitions.

The final area Bertrand and Betschinger explored was industry. They found that acquirers from concentrated industries—those with few powerful firms—did less poorly than others. Competition is lower in concentrated industries, so one likely explanation is that these acquiring firms gain greater power over suppliers and customers, and that this increased market power reduces the negative impact of each acquisition.

## CONCLUSIONS AND IMPLICATIONS

Bertrand and Betschinger set out to determine if the performance implications of acquisitions are somehow different for Russian firms. Given the rather rapid increase in Russian acquisition activity and Russia's place among a select group of nations that are expected to play an increasingly important role on the world economic stage, it seemed like the ideal location to study M&A activity. As it turns out, however, Russian firms, like their U.S. counterparts, generally get lousy results from their acquisitions. Overall, the lackluster results raise the same questions confronted elsewhere: Why conduct acquisitions at all? One answer is that in order to compete on the world stage, Russian firms must secure technology by acquiring technology-rich targets from outside Russia's borders, thus a short-term sacrifice in exchange for building a foundation for future success.

Although the M&As studied by the authors tended to do badly, there were some performance differences among the sample: acquirers seem to do less poorly if they have experience and if they focus mostly on domestic and same-industry acquisitions,

places where acquisitions might eventually help a firm spread its existing advantages. This result opens the door to new avenues of management research. For example, it might be interesting to know what Russian firms are doing to speed the acquisition learning curve. Management researchers are well positioned to study acquisition learning and address the important questions that remain. For instance, should Russian firms actively recruit and hire managers with acquisition background from more experienced U.S., European, and Asian firms? If so, are there problems with "negative transference"—where managers from one cultural and institutional context inappropriately transfer knowledge to a new setting where it does not apply? Are firms better off building in-house acquisition teams or can experience usefully be hired externally? How do different approaches to post-acquisition integration affect ultimate performance? After all, U.S.-based evidence suggests that post-acquisition integration is a key success factor (Larsson & Finkelstein, 1999).

Bertrand and Betschinger's research also raises questions about how Russia compares to the other three BRIC nations—Brazil, India, and China. Although all are undergoing significant economic transformations, each has its own unique culture, economic institutions, history, and challenges. It would be helpful to learn about how these differences impact the ability of local firms to successfully implement acquisitions. For example, how do Brazil's natural resources, China's manufacturing experience, or India's high-tech sector impact the success of acquirers from these countries?

In conclusion, Bertrand and Betschinger present important new evidence regarding Russian acquirers—we now know that the pattern of M&A performance results looks a lot like it does elsewhere in the world. The trick now is to dig deeper and see what role different kinds of acquisitions fill strategically for Russian firms. Which acquisitions will pay in the long run? Also, given that acquisitions are strategically important, this research forms an important foundation for finding ways to help Russian firms gain the experience needed to identify the best targets and successfully integrate them.

## REFERENCES

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