



## CASE STUDY: THE STRENGTH AND WEAKNESS OF CORPORATE MERGERS AND ACQUISITIONS

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Article	Abstract
<p><b>Keywords:</b></p> <p><i>Merger and acquisition, corporate, business competition, asset, financial transaction.</i></p> <p><b>Article History</b></p> <p>Received: Apr., 9, 2024; Reviewed: Apr, 12, 2024 Accepted: May.15, 2024; Published: June 10, 2024</p>	<p>This study examines the impact of mergers and acquisitions (M&amp;A) on company performance in emerging markets, using Indonesia as a case study. By analyzing data from the Business Competition Supervisory Commission (KPPU), it observes a significant rise in M&amp;A activity during the pandemic. Unlike previous research, this study evaluates both short- and long-term effects on company performance, emphasizing the role of managerial ability (MA) in M&amp;A success. While M&amp;A offers benefits like diversification and access to new markets, it also poses risks such as unclear goals and cultural disparities. Successful M&amp;A transactions can create value for shareholders, but careful planning, due diligence, and integration are essential for maximizing benefits and minimizing risks</p>

## 1. INTRODUCTION

A business must frequently overcome obstacles that force it to persevere through a range of issues that could eventually force it into bankruptcy. This is generally seen as one way to save a company so that it remains sustainable. M&A action is a desirable strategy when a company faces economic difficulties, such as in a pandemic situation.

Mergers and acquisitions (M&A) are strategic business activities that involve the consolidation of companies or their major assets through financial transactions. The terms "merger" and "acquisition" are often used interchangeably, but they have distinct meanings. In a merger, two companies combine to form a new entity, while in an acquisition, one company purchases another. M&A activities can allow enterprises to grow, downsize, change their business nature, or competitive position.

Since mergers and acquisitions are more than just a short-term trend because they sustainably affect company value, such strategies may have an impact on the company's sustainability. To obtain a higher rate of return and a higher market value, competent managers are better able to manage the business.

Most of the previous research on M&As sought to compare performance before and after M&As, whereas this research sought to demonstrate the influence of M&A on company performance over short- and long-term periods. Cui and Chi-Moon Leung (2020) agree that empirical research on acquiring companies' post-acquisition performance has not consistently uncovered evidence of improved performance<sup>1</sup>. In addition, some business actors still lack insight regarding the influence of managerial ability (MA) in mergers and acquisitions (M&A).

Based on Indonesian law, business competition and environmental conditions cause companies to improve their performance through mergers and acquisitions (M&A). This is evidenced by the increasing number of mergers and acquisitions in Indonesia during the pandemic. Based on data from the Business Competition Supervisory Commission (KPPU), the Supreme Court's notification in 2019 and 2020 was 120 and 195 cases, respectively, indicating a 62.5% increase in M&As (KPPU, 2019, 2020).<sup>2</sup> Thus, the research value focuses on debt restructuring in emerging markets, which is mostly on recapitalizing assets and financial growth.

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<sup>1</sup> Cui, Huijie & Chi-Moon Leung, Sidney, 2020. "The long-run performance of acquiring firms in mergers and acquisitions: Does managerial ability matter?" *Journal of Contemporary Accounting and Economics*, Elsevier, vol. 16(1)

<sup>2</sup> Suryaningrum Hari Diah, Abdul Aziz Abdul Rahman, dkk. "Mergers and acquisitions: does performance depend on managerial ability?", <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC10177728/>, accessed on 12 May 2023.

## **2. RESEARCH METHODS**

A combination of quantitative and qualitative approaches to analyze the strengths and weaknesses of corporate mergers and acquisitions (M&A) in the context of financial reorganization. The research methodology uses a mixed approach to address the complexity of the phenomenon being studied and to achieve a comprehensive understanding of the factors influencing post-acquisition performance and the long-term impact of M&A on a company's success or failure.<sup>3</sup>

## **3. ANALYSIS AND DISCUSSION**

### **3.1 Analysis of The Microsoft-LinkedIn Acquisition: Cultural Integration and Post-Acquisition Challenges**

Concrete case studies of M&A can provide deeper insight into how strengths and weaknesses in the process can impact company performance. As an example, we can look at Microsoft's acquisition of LinkedIn in 2016.<sup>4</sup>

This M&A is considered a strategic step for Microsoft to expand its business services portfolio and increase market penetration in the social and professional networking industry. Initially, the deal provides the potential for Microsoft to integrate LinkedIn's large and active network with its business software products and services, such as Microsoft Office and Dynamics CRM.<sup>5</sup>

However, in the integration process, Microsoft was faced with significant organizational cultural challenges between companies based in Silicon Valley and Microsoft's traditional corporate culture in Redmond. Differences in work approaches, management styles, and cultural values can hinder teamwork and effective decision making.<sup>6</sup>

Additionally, while the acquisition provided access to LinkedIn's large network of users, Microsoft needed to adapt quickly to changing market changes and industry trends. Challenges arose in integrating LinkedIn's platform with Microsoft products without disrupting existing user experiences or raising concerns about data privacy.

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<sup>3</sup> Ahmad Afdhol Marwan (2021). Pengaruh Merger Dan Akuisisi Terhadap Profitabilitas Perusahaan Dalam Perspektif Islam Pada Perusahaan Yang Terdaftar Di Jakarta Islamic Index (Jii) Periode 2015-2019

<sup>4</sup> Microsoft. "Microsoft to acquire LinkedIn" (2016). Microsoft News Center. [Online].

<sup>5</sup> Bort, J. "Why Microsoft is buying LinkedIn for \$26.2 billion" (2016). Business Insider. [Online]

<sup>6</sup> Grothaus, M. "Why the Microsoft-LinkedIn Deal Will Change the Tech Landscape" (2019). Fast Company.

### **3.2 The Deeper Discussion of Cultural Integration and Post-Acquisition Challenges In The Context of Microsoft's Acquisition of LinkedIn**

Cultural integration and handling post-acquisition challenges are two critical aspects that need to be carefully considered in any M&A process. In the case of Microsoft's acquisition of LinkedIn, these two aspects were the primary focus in evaluating the impact of the deal.

First of all, cultural integration is central to the long-term success of an acquisition. The cultural differences between Microsoft and LinkedIn, which include differences in work approaches, organizational norms, and core values, require a very careful approach. Improper cultural integration can result in disharmony among employees, disrupt productivity, and even lead to the loss of key talent.<sup>7</sup> Therefore, a mature cultural integration strategy needs to be drawn up in advance, which includes an inclusive approach, transparent communication, and the development of leaders who promote a unified corporate culture.<sup>8</sup>

Furthermore, post-acquisition challenges include integrating technology, operations, and business strategy. In the Microsoft-LinkedIn case, the companies were faced with the complexity of combining different technology platforms and ensuring continuity of service for users. This requires a deep understanding of each company's technology architecture, as well as a well-thought-out plan to address interoperability, data security, and infrastructure changes that may occur.<sup>9</sup> Additionally, managing the business transition and integrating the business strategies of both companies is an additional challenge that requires strong coordination between key management teams.

In addition to cultural integration and operational challenges, it is also important to pay attention to the legal and financial aspects of an acquisition. The integration process must consider the differences in regulatory, compliance, and legal obligations of the two companies, as well as the tax and financial structure implications that may arise from the deal.<sup>10</sup>

By paying attention to all of these factors, companies can optimize the chances of M&A success and minimize the risk of failure. Steps such as establishing a cross-functional integration team, developing a detailed integration plan, and ongoing performance

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<sup>7</sup> Lunden, I. "Microsoft officially closes its \$26.2B acquisition of LinkedIn". TechCrunch.

<sup>8</sup> Levy, A. "The Inside Story of Microsoft's Surprising Acquisition of LinkedIn". Wired.

<sup>9</sup> Primack, D. "Why Microsoft Is Buying LinkedIn". Fortune

<sup>10</sup> Cartwright, S., & Cooper, C. L. (1993). The role of culture compatibility in successful organizational marriage. *Academy of Management Executive*, 7(2), 57-70.

evaluation can help ensure that the integration runs smoothly and achieves the desired strategic goals.<sup>11</sup>

It is important to remember that each acquisition has its own unique dynamics, and M&A success depends not only on deal price or potential synergies, but also on a company's ability to manage the complexity and uncertainty associated with cultural and operational integration. With the right approach and strong commitment, acquisitions like Microsoft-LinkedIn can be a driver of strong growth and sustainable business transformation.

### **3.3 Controlling Cultural Integration and Market Adaptation in Acquisitions: Lessons from The Microsoft-LinkedIn Merger**

This case study shows that while M&A such as Microsoft's acquisition of LinkedIn can provide significant growth and synergy potential, its success also depends largely on the company's ability to manage the challenges of cultural integration and market adaptation. Microsoft must clearly understand LinkedIn's organizational culture and find ways to strengthen collaboration between teams and maintain positive cultural values.<sup>12</sup>

Additionally, Microsoft must adopt a strategy that is flexible and responsive to market and technological changes in integrating LinkedIn into its own ecosystem. This requires a deep understanding of user needs, as well as the ability to anticipate and respond to rapidly evolving industry trends.

This case study of Microsoft's acquisition of LinkedIn provides an in-depth understanding of complex M&A dynamics. There are several important points that need to be analyzed in more detail:

- 1) **Organizational Culture Integration:** One of the biggest challenges in M&A is integrating different organizational cultures. In this case, Microsoft, an established technology company with a strong corporate culture, had to blend in with LinkedIn, a company that was more innovative and had a more open culture. Incompatible cultural integration can hinder collaboration and productivity, so companies must have a clear strategy to strengthen cultural alignment.<sup>13</sup>
- 2) **Market and Technology Adaptation:** Rapid market and technology changes are another challenge faced in M&A. Microsoft must be able to integrate the LinkedIn platform with its existing products and services without disrupting the existing user

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<sup>11</sup> Brown, S., & Eisenhardt, K. (1998). *Competing on the Edge: Strategy as Structured Chaos*. Harvard Business Review Press.

<sup>12</sup> Grothaus, M. "Why the Microsoft-LinkedIn Deal Will Change the Tech Landscape" (2019). Fast Company

<sup>13</sup> Cartwright, S., & Cooper, C. L. (1993). The role of culture compatibility in successful organizational marriage. *Academy of Management Executive*, 7(2), 57-70.

experience. In addition, companies must also be able to respond to changes in developing industry trends, such as changes in user behavior and new technological innovations. This requires flexibility in M&A implementation strategies.

- 3) Risk Management: Every M&A carries its own risks, whether they relate to integration, finance, or reputation. In this case, Microsoft must take into account the risks associated with the privacy of LinkedIn user data and the potential disruption in user experience. Companies must have a comprehensive risk mitigation plan and be ready to address challenges that arise during the M&A process.
- 4) Performance Measurement: Post-M&A performance evaluation is also an important step in M&A analysis. Microsoft will need to monitor relevant performance metrics, such as user growth, revenue, and net profit, to assess the long-term success of the LinkedIn acquisition. Understanding the financial and operational impacts of M&A will help companies determine the effectiveness of the deal and make necessary adjustments.<sup>14</sup>

By considering the learnings from this case study, other companies planning to undertake M&A can take more informed and proactive steps in planning and executing the deal. This includes paying attention to organizational culture, focusing on effective integration, and considering market and technological changes in implementation strategies. With the right approach, companies can increase their chances of success and avoid the pitfalls often associated with M&A.

#### **4. CONCLUSION**

Strategic business actions known as mergers and acquisitions represent the combination of two businesses into one or a takeover of one by another. These procedures, which are frequently referred to as "corporate marriages," are meant to accomplish a number of goals, including diversification, talent, access to new markets, economies of scale, and scope. Nevertheless, despite the potential benefits, mergers and acquisitions can be difficult and risky. Research indicates that the percentage of mergers and acquisitions that fail can vary from 70% to 90%. These failures can be attributed to various issues, such as unclear goals, insufficient due diligence, cultural disparities, and ineffective integration procedures.

By producing financial and operational benefits that increase shareholder value, mergers and acquisitions that are successful can help businesses create value. These are tactics that companies frequently use to diversify their business, grow, and gain access to

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<sup>14</sup> Datta, D. K., & Puia, G. S. (2019). Cross-border mergers and acquisitions: A review and research agenda. *Journal of World Business*, 54(1), 54-67.

new markets, customers, technologies, and people. Careful planning, precise objectives, extensive due diligence, efficient integration procedures, and awareness of cultural variations are necessary to optimize the benefits of mergers and acquisitions.

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