10b No U-turn?

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1 What are some of the problems that can arise in international mergers and takeovers? Why do so many of them appear to fail? Discuss in pairs/small groups.

2 Read the following case study of a troubled auto industry takeover.

Elite Motors is a German niche market producer of luxury sports cars. It is long-established and successful but quite small. Three years ago, during a series of brand consolidations in the auto industry, the CEO pushed through a controversial takeover of Empire Motors, an ailing British producer of middle-range cars. Empire's products and facilities were long past their best, but they had a good brand name and a complementary range that potentially offered a quick way to diversify Elite's products. 'Synergy' was the word on everyone's lips and the vision was to support the development of a new model range at Empire but in a fairly hands-off way, allowing the existing management to run the company.

Unfortunately, things are not going according to plan. Despite investing more than €600 million, Empire Motors is continuing to make bigger than expected losses, and it's still 18 months before the new product range will be launched. Meanwhile, although Elite is still making good profits, the diversion of financial and engineering resources is threatening to delay the development of its own new models. The group's share price is starting to fall, and there are rumours that it could itself be the target of a takeover from one of the big Japanese companies.

The British government, criticised for not preventing the takeover of a proud national symbol in the first place, is under pressure to save jobs at Empire, but reluctant to invest more money in what many see as a doomed enterprise.

Something needs to be done.

A Group CEO
This was your big idea in the first place. You believe in Empire Motor's management. They just need more time (and a lot of cash) to turn things around. Stringent cost cuts at Empire together with a nine-month delay in replacing products at Elite should solve the problem. You're sure you can persuade the British government to come up with some cash too.

B Group Finance Director
You knew all along this would be a disaster. Another two years of these losses and the company will be in danger of going bankrupt. The only solution is divorce! The problem is that finding a new partner for Empire won't be easy. Still, you have to get out of this disastrous relationship whatever it takes. You believe that niche markets are the future, and that Elite should concentrate on its strengths and forget about diversification.

C Empire Managing Director
Your reputation and job are under threat here. The problem is the resistance of the trade unions to radical change, but now there's not much choice. Deep cuts in the workforce and new German working practices are needed. You're sure the new models will be a success, but why are those German engineers so fussy about quality? You would have had the new model in the showroom by now, even if there were still a few minor defects.

D Group Marketing Director
At first enthusiastic about the broadened product range, the poor quality and performance of the Empire models is beginning to have an impact on your company's market image. The new models look like winners, but it might be too late to reverse the damage. You're now not really sure that your company needs a full model range.

E Group Engineering Director
You've invested a lot of time and energy in renewing Empire's model range, and would hate to see it scrapped now. You're determined to produce a top-quality product for Empire. On the other hand, many of your engineers are complaining about the lack of resources for their own projects at Elite. They want to ditch Empire and go for their own medium-range models (three-year development time), based on Elite's engineering excellence. It would require big investment but in the long term might make more sense.

F Empire Trade Union Leader
You're in a weak position, but must try to protect the jobs of your members. The company is pressing for salary cuts and redundancies to improve productivity. Your members have already accepted a two-year wage freeze. They won't take much more. The problem is lack of investment and lack of communication between the two management groups.