



**REPORT ON
THE APO STUDY MEETING ON
STRATEGIC MERGER & ACQUISITION
FOR SMEs**

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Introduction

The Asian Productivity Organization (APO) organized a study meeting on Mergers & Acquisitions (M&As) for the third time. This meeting in 2010 had a particular focus on Small and Medium Sized Enterprises (SME). The meeting took place from 23-26 November 2010 in Daejeon, Republic of Korea hosted by one of APO's founding members, the Korea Productivity Center (KPC), with delegates from various APO member countries.

This report summarizes some of the findings and issues discussed during the study meeting. It tries to give a balanced view on the issues, but does not necessarily express and reflect of the APO, its representatives or any delegates that participated in the meeting. The report starts with information on the importance of Mergers & Acquisitions in Asia and particular of Small and Medium Sized Enterprises of APO member countries, explores various issues in SME M&As in APO member countries and ends with a conclusion and policy recommendations.

1) Importance of Mergers & Acquisitions

In this section, information will be given on Mergers & Acquisitions in Asia-Pacific in general and of SME in APO member countries in particular.

M&A in Asia-Pacific

The number and value of announced M&A with companies from Asia-Pacific as acquirer, target or merged company since 1995 has grown a lot (please see figure 1). The number of announced transactions in the last 16 years has been more than 123'000 deals with a known total value of 5,148 bil. USD. The year 2010 was again a year with high level of M&A activity in the region very close to the records of the past years: the third highest number of transactions and the second highest value. The cumulated annual growth rate (CAGR) over the period of the last 16 years was 8% for the number and 13% for the value. This significant growth shows the increasing importance of M&A for companies and the realization of their strategies.

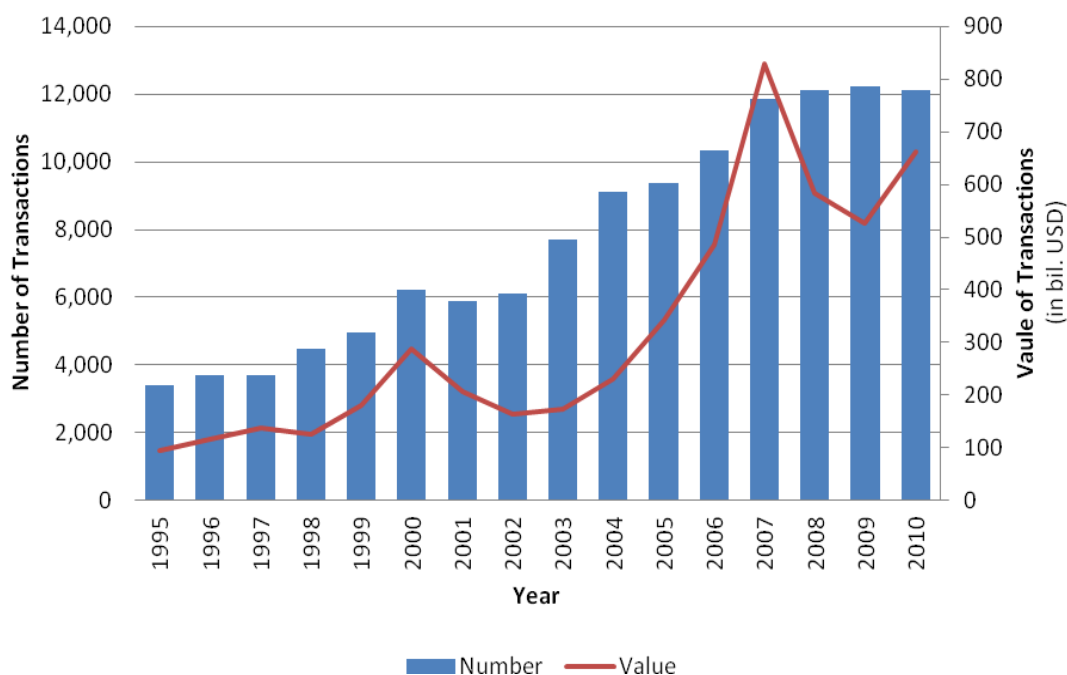


Figure 1: Announced Mergers & Acquisitions in Asia-Pacific (1995-2010)¹

M&A of SME in APO Member Countries

More than 83,450 M&A transactions of SME² as acquirers from or to APO member countries³ with a total value of 2,627 bil. USD have been announced from 1995 to 2010 (see figure 2).⁴ This represents a significant share of M&A activity in the region: 68% of all numbers and 51% of the value of transactions in Asia-Pacific (see section before). The CAGR was also a bit higher: 10% for the numbers and 15% for the value of transactions. This clearly shows the high importance of SME M&A as an economic phenomenon first as a relative share in overall transactions and second with regards to its growth. In 2010, SME M&A hit a new record of 345 bil. USD of deals.

¹ Source: Thomson Financial, Institute of Mergers, Acquisitions and Alliances (IMAA) analysis

² We have decided to define companies with less than 100 employees as SME. For a comparison of SME definitions in Asia-Pacific see for example the table “Definition of SMEs in South East Asian Countries” by the United Nations Development Programme (UNDP) (<http://www.undp.org/cpsd/countrylaunches/Southasia-workshopreport.4.pdf>) or the table “SME Definitions in selected Asia Pacific Economic Cooperation (APEC) member countries” as compiled by the Small & Medium Enterprises Development Authority in Pakistan (<http://www.smeda.org.pk/main.php?id=2>).

³ Member countries of the APO as of 2010: Bangladesh, Kingdom of Cambodia, Republic of China, Fiji, Hong Kong, India, Indonesia, Islamic Republic of Iran, Japan, Republic of Korea, Lao People’s Democratic Republic, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Socialist Republic of Vietnam; Source: http://www.apo-tokyo.org/04npo_list.htm.

⁴ Acquirers with less than 101 employees or no information available.

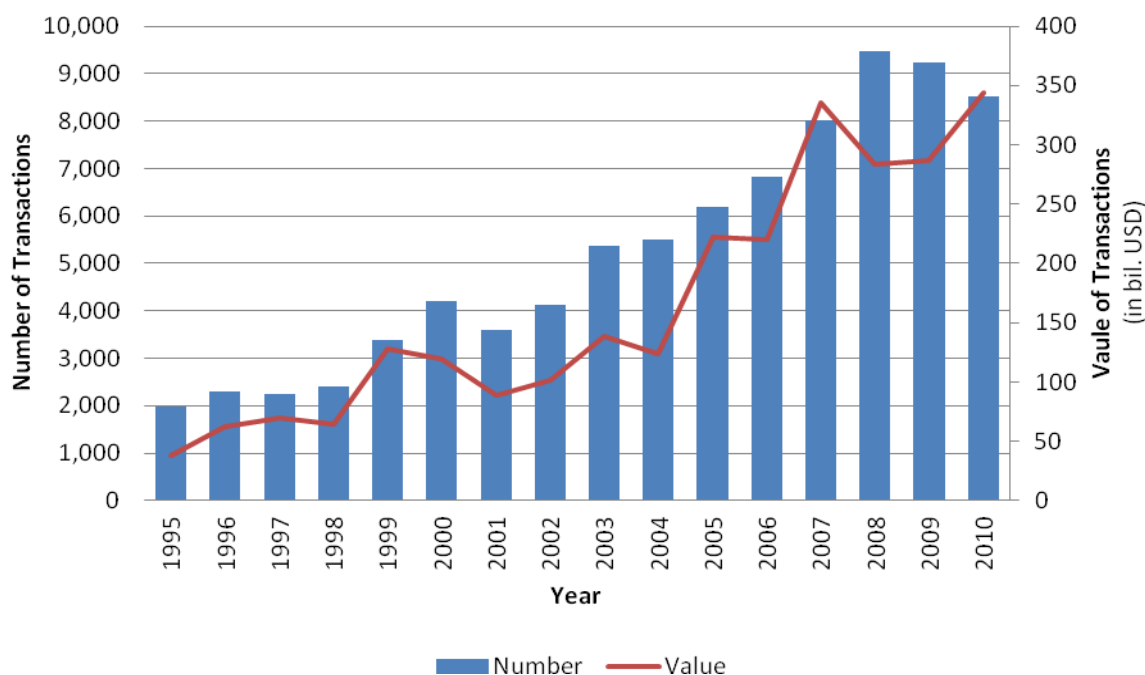


Figure 2: Announced Mergers & Acquisitions of SME APO Member Countries (1995-2010)⁵

2) Issues in SME M&As in APO Member Countries

The meeting started with a presentation on “How SMEs Make Use of an Integrated M&A to Grow Successfully” by the author of this report. One of the central concepts is an integrated M&A process (see figure 3) which was also constructively and positively discussed and evaluated during the second study meeting on M&A by the APO in Indonesia in 2007. This served as an informative basis for the presentation and discussion of the paper presentations by the participants. Most papers covered the M&A of SME in their countries, latest statistical data (where available), recent developments in legal frameworks, case studies and other observations. In this report, the most important issues have been chosen to highlight the active and passionate level of discussion during the study meeting.

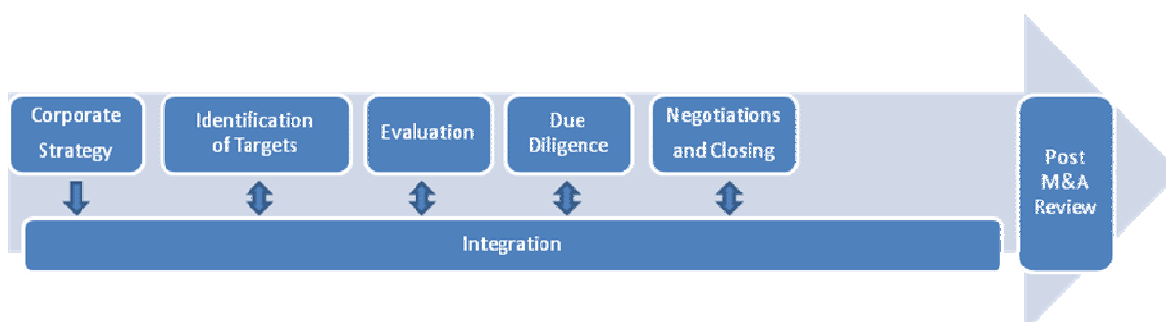


Figure 3: Integrated Mergers & Acquisitions Process from the Perspective of the Acquirer

Success and failure of SME M&A

Most statistics and research on the success and failure of M&A show a high failure rate of deals. In most of the cases a destruction of value can be observed. There are two limitations

⁵ Source: Thomson Financial, Institute of Mergers, Acquisitions and Alliances (IMAA) analysis

on these findings: First of all, most of the studies however are based on relatively large transactions and not SME M&A. Second, regardless of size, most of these studies have not a particular focus on Asia or APO member countries.

While some participants quoted examples of successful SME combinations, others brought up examples of complete disaster. We concluded that it would be worthwhile to take a closer look at how successful or unsuccessful SME combinations are in APO member countries as well as the reasons for this to improve the success rates.

Motives for a combination of SME

A couple of motives leads to the combination of independent SMEs. Clear situations that lead to M&A of many SME are the retirement of the managing owner or founder while no suitable successor from the family is available. Other motives include a situation of a financial difficult situation due to competition or economic climate that prevents the future operation of the SME as a sustained profitable firm. Some owners also want to take advantage of the opportunity to sell their business to secure a financially more secure asset base and to capitalize on the successful growth of their businesses.

While the sale of an SME can have a variety of reasons, we remarked that at least from the point of view of the acquiring company a clear strategy and strategic goals should be the main motivation to acquire another business. Strategy must be the main starting point for any reasoning on M&A. Most participants concluded that business owners and directors may need to be made aware of the different strategic motives that lead to good M&A transactions. Some ideas on strategies for the acquiring company can be found in table 1.

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| <ul style="list-style-type: none">• Growing nationally and abroad with M&A• Creating regional champions or global niche players• Especially in industries where business will be sustainable• Combine strong and successful foothold in emerging countries with activities in mature, but sizable economies• Acquiring companies can be a great opportunity to grow• Arranging "true" mergers might be an alternative where acquisitions cannot be financed; financial resources could be devoted to other activities of the company• Companies that would like to attract new shareholders should concentrate on strategic and entrepreneurial investors or financial investors with industrial background ("smart money"); only in cases of a clear and complete exit strategy financial investors might be good choice• Companies for sale that are not under immediate pressure should rather use the time to prepare and improve for a sale |
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Table 1: Potential Strategies for Asian SMEs to Make Best Use of Mergers & Acquisitions

Knowledge about M&A and Management Capacity of SME

In addition to the strategic perspective on M&A, most participants agreed that the level of knowledge about M&A and the management capacity of SME to plan and implement transactions for the benefits of their companies might be very limited. Access to information and trainings might have a high impact on helping them to know about the benefits and drawbacks of M&A and how to use it in the right way to enjoy the success that can come with it.

Benefits for the society

During the meeting a discussion took place about the benefits and drawbacks of M&A and their effects on society. We all agreed that particularly for M&A in SME, most M&A will clearly be beneficial for the owners as well as for society as it fosters the competitiveness of their companies, improves the quality of products and services as well as ensures the availability of sustainable employment.

In cases where M&A however threatens to bring negative effects, especially unjustified price developments through monopolistic tendencies and behavior, we agreed that this must be prevented. For many APO member countries, antitrust regulation is in place that tries to ensure that market power through deals is prevented. We strongly recommend that in all APO members such regulatory framework is in place.

3) Conclusion and Policy Recommendations

At the end of the study meeting, the participants concluded that future study meetings on M&A of SME should be organized by APO to bring together the wealth of experience from different countries to stimulate progress on this matter and positive effect for SME and the economic growth and prosperity in the region.

We summarize our recommendations as follows:

1. Better information basis: We suggest that APO and/or the National Productivity Organizations (NPOs) collect information about the use, success and failure of SME M&A in the region and/or specific countries to provide companies, owners and managers with information and case studies.
2. Access to information and trainings: The study meetings organized by the APO have had a very positive impact on the participants and delegates who always try to implement and disseminate their knowledge and findings to other companies, public institutions, politics and other stakeholders. Most participants however suggested that it would be beneficial to support SME owners and managers on the complicated subject of M&A with trainings and other information materials. NPOs might be a good institution to offer and implement trainings as well as to provide information in writing (e.g. manuals, books, and brochures).
3. Regulatory framework: Antitrust law and commissions as well as company law should enable SME M&As to bring the benefits to the companies and all other stakeholders, but also prevent harmful effects on society. NPOs should try to improve existing regulation where in place or if not in existence help to drive a process to create and implement it.
4. Continuation of study meeting: As the subject of SME M&A is so diverse and complex, participants agreed that the study meeting was a success and should be continued to be organized by APO.

ANNEX

Study Meeting on Strategic Merger & Acquisition for SMEs

Day1: 23 November 2010 (Tuesday)	
0930 – 1000	Opening Ceremony/ Group Photo/ Introduction - Mr. Jun-Ho Kim, Director, International Cooperation Department, Korea Productivity Center (KPC) - Mr. Masaya Amau, Program Officer, Research & Planning Department, Asian Productivity Organization (APO)
1000 – 1030	APO Presentation Mr. Masaya Amau
1030 – 1100	Coffee Break
1100 – 1230	SME Experience of M&As in Korea Dr. Moon-Kyum Kim, Professor, Department of Entrepreneurship & Small Business, Soongsil University
1230 – 1400	Lunch Break
1400 – 1530	How SMEs Make Use of an Integrated M&A to Grow Successfully Dr. Christopher Kummer, President, Institute of Mergers, Acquisitions and Alliances (IMAA)
1530 – 1600	Coffee Break
1600 – 1700	Country Presentations: Cambodia and Indonesia

Day2: 24 November 2010 (Wednesday)	
0900 – 1030	M&As for SMEs from the perspectives APO Research on SME Finance & Innovation Dr. Moon-Kyum Kim
1030 – 1100	Coffee Break
1100 – 1230	SME Experience of M&As in Republic of China Dr. Chiungfeng Ko, Associate Professor, School of Business, Soochow University
1230 – 1400	Lunch Break
1400 – 1500	Country Presentations: Iran and Japan
1500 – 1530	Coffee Break
1530 – 1700	Country Presentations: Pakistan, Philippines and Singapore

Day3: 25 November 2010 (Thursday)	
0900 – 1000	Country Presentations: Thailand and Vietnam
1000 – 1030	Coffee Break
1030 – 1100	Orientation for the Group Discussions Mr. Masaya Amau

1100 – 1200	Group Discussions Group A (Facilitator - Dr. Christopher Kummer) Group B (Facilitator - Dr. Chiungfeng Ko) Group C (Facilitator - Dr. Moon-Kyum Kim)
1200 – 1300	Lunch Break
1300 – 1500	Group Discussions (continue)
1500 – 1530	Coffee Break
1530 – 1700	Final Group Presentations: Group A, Group B and Group C

Day4: 26 November 2010 (Friday)	
0900 – 1000	Wrap-up Comments: Dr. Moon-Kyum Kim and Dr. Christopher Kummer
1000 – 1030	Coffee Break
1030 - 1130	Wrap-up Comments and Sharing Action Plans from the Participants
1130– 1200	Closing Ceremony - Mr. Jun-Ho Kim, KPC - Mr. Masaya Amau, APO