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**Negotiating Cross-Border Acquisitions**

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# Case Study

## Negotiating Cross-Border Acquisitions

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*The experiences of an Italian copper-products company yield lessons for firms engaged in global mergers and acquisitions.*

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Driven by competitive pressures for globalization and facilitated by the liberalization of markets worldwide, cross-border mergers and acquisitions grew explosively during the 1980s, paused in the early 1990s, and are again increasing. Particularly in Europe, the number of cross-border deals soared from around 400 in 1986 to almost 2,000 in 1991 — representing almost 60 percent of all deals in Europe — and are now around 1,500 annually. The value of such deals has grown proportionately more than their impressive raw numbers;<sup>1</sup> indeed, on a single remarkable day — “Mad Monday,” 13 October 1997 — more than \$120 billion in cross-border European mergers

and acquisitions were announced. While analysts have dissected many economic and financial aspects of this powerful trend, they have paid relatively little attention to the negotiating processes involved in these transactions. In this case study, I explore a sequence of acquisition negotiations by one Italian firm, Societa Metallurgica Italiana SpA (SMI), that consistently overcame seemingly insurmountable obstacles. From SMI’s skillful approach, I distill broad lessons for effectively negotiating cross-border deals.

Many companies negotiate cross-border transactions routinely, using familiar scripts for effective deal making: “map” or

enumerate and characterize the parties, assess their interests and their no-deal alternatives, envision potential agreements and the bargaining range, craft processes for both creating value and claiming it, pay attention to the sustainability of agreements, and so on.<sup>2</sup>

Yet, when financial negotiations cross borders, this general advice needs elaboration to fit the context, especially for inherently challenging transactions. Another country's politics, culture, and corporate governance policies can erect nearly insurmountable obstacles. In "fortress" Germany, for example — in which one of SMI's most successful deals was consummated — only three hostile takeovers have been completed since 1945, despite numerous attempts. Even friendly mergers occur far less frequently in Germany than in the United Kingdom or the United States.<sup>3</sup>

Italian tire manufacturer Pirelli's abortive effort to acquire German competitor Continental Gummiwerke exemplifies the efforts of many outsiders to make acquisitions in Germany. In 1990, Pirelli — with full financing and the apparent support from a majority of Continental's shareholders, including Deutsche Bank — tried to negotiate a merger with Continental. The process triggered a widely publicized, acrimonious confrontation, and Pirelli failed to secure a sufficient voting stake in its German competitor, suffering a humiliating rebuff from Continental management and a loss of more than \$430 million.

The German "fortress" can prevent even its own firms from mounting hostile acquisitions of domestic competitors. In March 1997, German steel manufacturer Fried. Krupp AG Hoesch-Krupp launched a hostile takeover bid for compatriot rival Thyssen AG, a publicly traded company in the unusual position of having 80 percent of its shares widely disbursed among German investors. The bid — which, if successful, would have eliminated thousands of jobs — triggered fierce retaliation from Germany's steelworking unions and strong opposition from political leaders. Steelworkers staged massive strikes to protest the takeover plan, and approximately 30,000 union members demonstrated at the headquarters of Deutsche Bank and Dresdner Bank, the two German institutions financing Krupp Hoesch's bid. Within days, Krupp Hoesch rescinded its bid and was cowed into establishing a friendly joint steel manufacturing venture with Thyssen.

Like Pirelli, Assurances Generales de France (AGF), the second-largest French insurer, was repulsed by the German "fortress" when it attempted to forge an equity-linked strategic alliance with German insurance giant Aachener and Munchener Beteiligung in 1990. Three years after AGF's overtures were blocked, Michele Albert, chairman of the French insurer until 1994, commented:

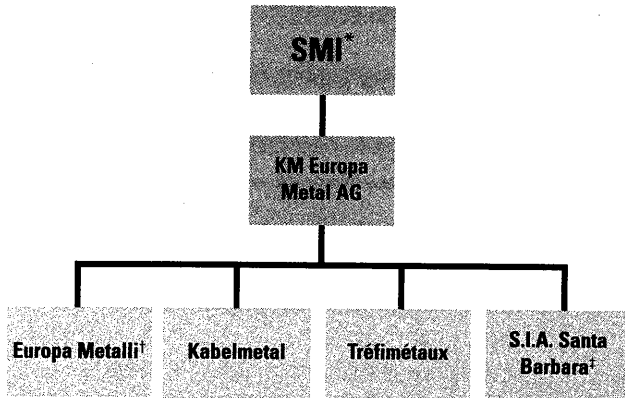
"[The] takeover bid . . . is virtually unknown in Japan, Switzerland, and Germany. Approximately a third of German companies issue registered shares which may not be sold or transferred without the express authorization of the company. What is more, the board of directors (in its capacity as legal representative of the firm) may in some cases withhold its reasons for turning down a share-transfer request. This prerogative is a highly effective delaying tactic: you have no vote and no right to join in an increase in capital as long as the share transfer has not been approved by the company in question."<sup>4</sup>

Of course, takeover bids, especially hostile ones, typically stimulate aggressive negotiations, but Albert underscores the potential influences of differences in corporate governance and political economy on negotiating strategy for cross-border deals. The Italian firm I examine here has quietly shown a mastery of such difficult negotiations and completed major deals in its home country and in France, Spain, and Germany. Its success is all the more remarkable given that Italian firms are generally underrepresented acquirers in Europe (accounting for only 3 percent to 6 percent of cross-border purchases from 1991 to 1994, despite its 15.5 percent share of EU GDP). Furthermore, its most significant acquisition — a German firm that propelled the combined group to European dominance — occurred in what Albert and others have described as the world's most forbidding setting for would-be acquirers.

As a student of negotiations, I was intrigued by SMI's history of acquisitions. SMI, the holding company that owns KM Europa Metal, belongs to the Orlando group, headed by Luigi Orlando. (For SMI's organizational structure, *see Figure 1.*) SMI is in the copper transformation business, purchasing refined copper and its alloys and converting them to rolled form, tubes, laminates, and brass bars. In 1965, as one of many small and medium-sized Italian competitors, SMI had four plants and 3,800 employees, and produced 63,000 tons of copper products annually. At a

Figure 1

**SMI Organizational Structure**



\*SMI owns 77%; dispersed German shareholders hold the balance.  
†Includes La Metall Industriale (LMI) and other SMI subsidiaries in Italy.  
‡The group's Spanish subsidiary.

time when privatization was anathema in Italy, SMI nevertheless acquired and effectively privatized the copper division of the state-owned Finmeccanica, its primary Italian competitor, significantly rationalizing the Italian market and strengthening its position.

In 1986, in a second round of negotiations, SMI acquired its major French competitor, Tréfinétaux, a subsidiary of Pechiney, the vast French aluminum concern. SMI skillfully acquired the company over the staunch objections of most Tréfinétaux managers and with the unlikely but necessary blessing of the French government, which had nationalized the parent, Pechiney, only four years earlier. This was, again, an unlikely outcome: a *private Italian firm* acquiring a *state-owned French firm* that opposed the deal.

In 1990, SMI set its sights on Kabelmetal AG, a German competitor producing nearly 14 percent of Europe's semifinished copper. To many, Kabelmetal was a more audacious acquisition target than Tréfinétaux. The scale of this prospective transaction was daunting, but even more formidable were the traditionally high barriers to cross-border acquisitions in Germany. This was, after all, only several months after Pirelli's ill-fated attempt to merge with Continental. Yet SMI, with a carefully orchestrated negotiating strategy played out among multiple layers of shareholders and managers at its German target, prevailed, successfully acquiring Kabelmetal toward the end of the year.

On 5 October and 21 December 1995, I interviewed Sergio Ceccuzzi, Vorstand (management board) mem-

ber of KM Europa Metal AG (responsible for strategy, financial policy, and management control) and chairman of Europa Metall SpA, a KM Europa Metal subsidiary in his office, part of the Palazzo della Gherardesca. This ornate fifteenth-century Medici palace has served as the Florence headquarters of SMI since 1939. Our discussion centered on his firm's approach to negotiating a relentless series of acquisitions, mostly across national borders, that led SMI from its roots as a minor Italian player in the copper transformation business to its current industry-leading incarnation as KM Europa Metal AG. Viewed narrowly, this is but the parochial story of a minor Italian firm in a series of consolidating industry transactions. To cogniscenti of negotiation, however, this is like classifying Machiavelli as an adviser to sixteenth-century art collectors. Following this shortened, edited version of our conversation, I summarize some lessons from SMI's experiences. In the *sidebar*, I recount SMI's growth and performance.

**James Sebenius:** *Could you please tell me about SMI's main thrusts and approach to acquisitions?*

**Sergio Ceccuzzi:** SMI's business mainly involves the purchase and transformation of refined copper and scrap, not mining, raw material, or refining. Obviously, this business is very capital intensive. The Italian industry in the 1960s was composed of numerous small and medium-sized enterprises, quite unlike Kennecott or Anaconda in the United States, which were vertically integrated, often from mining through finished products. In formulating a fundamental strategy for growth, we at SMI made two basic decisions. First, we had to continue investing heavily in existing operations to ensure that we had the latest technologies and processes. Second, we had to grow through acquisition. We were *not* interested in growth by acquiring unrelated businesses in order to diversify; rather, we sought to acquire only firms that amplified our line of business.

We felt that no one knew our business better than we did — from our technology to our markets to our competitors. So we decided to employ advisers in our transactions only *after* we had directly approached the people on the other side — whom we typically knew well — and had negotiated a positive conclusion, at least in principle. Afterward, of course, the bankers and lawyers could craft an appropriate financial and legal structure to support the business arrangement we had already worked

