

**UNIVERSIDAD GABRIELA MISTRAL**



**STRATEGIC MANAGEMENT AND LEADERSHIP CONCEPTS  
IN  
MERGERS & ACQUISITIONS**

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MONOGRAPHY

NOVEMBER 1999

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For

Isidora de los Angeles, and Monserrat de la Piedad, my daughters, my family, with love

And guiding professors: Luis Escobar, for his patience and knowledge, Erik Haindl, Duane Kujawa, Jeffrey Kerr, Sandford Ehrlich, for being excellent professors, and for Shlomo Maital, “Gran Maestro”, for reviewing and advising this study, to all of those that supported me during the program Carmen Maturana, and Isabel Vergara. Finally, a special thanks to all the people that understood me.

Santiago de Chile, November 06, 1999

Bernardo Javalquinto Lagos

## **I. EXECUTIVE SUMMARY**

A Successful Merger and Acquisition (M&As) seems to be the magic answer to the globalization of the economy. Every day new business operations of this nature are announced in newspapers all over the world. However, only 30% of the M&As are successful. This means that, in most of the cases, when you add 1 plus 1 is not equal to 2, but 1,5.

Studies of numerous cases of M&As have shown that the formula of success is made up of, at least, three basic fundamental factors.

First, you have to think about the strategic vision that you will have with this new entity and of the value added that will contribute to this new merger. Second, choose the best similarities of the different cultures that shared same or similar values and that will make or empower your organization. Finally, make the integration process to be well managed.

This last statement is very delicate. Because if you think carefully the value of a company is changing from the tangible value factors in the past to intangible factors, that are appearing to be extremely valuable, e.g., the clients and the personnel. Of course, those are obviously the ones that we don't buy. We should change our way of thinking and we should convince them that the merger will be profitable for them; otherwise, they simply leave and or are fired because they create chaos in the process and leads to the destruction of value of the company.

The integration is not a mere arithmetic operation, but rather it requires, to be very careful, and especially to have tact in order to avoid a rupture between the winning assumptions and the presumed losers.

The first step is to define who will be the "Architect of the Merger" and quickly clarify the situation to the top management level, to avoid the concern of a future stagnation in the main level of executives of the company. The decisions taken should be objective and applied with judgment in order not to generate a "war of clans." Also, it means to constitute a mixed and quite balanced team that will really do the job for you "all the way, just for the success of the merger."

The next step is defining the rules of the game clearly, where the fairness and impartiality of the Architect is completely reliable, with no question, whatsoever. At the same time, during the whole process is required a good plan of communication, without it, the field is left free for all kind of speculations and uncertainty. The speech should be coherent with the acts and vice versa.

The management team should define their plan of action quickly and put it in progress immediately, in order to avoid deception and the risk of being left in the middle of road.

The biggest problem, is that all the energy could be absorbed solving internal problems of the M&As. If this happen, it is possible that when you loose control of the administration and of the business, this will create a great benefit for the competitors.

So, in order to completely successful, the merger cannot be a mere absorption of one company to another. On the contrary, the result should be "in the creation of a new entity that arises with their own culture, that emerges with the best of each one of the parts, and able to develop new internal process in order to be more efficient."

Under these conditions; all "clients, personnel and shareholders will be winners."

## II. INTRODUCTION

In today's world one of the major reasons that we are seeing so many Merger and Acquisitions (M&As), is due to the fact of the economic globalization of the world. The world is becoming smaller and we will continue to see more and more M&As in the future. As the financial and economic world integrates more and more, companies must compete globally, and they will have to merge to find and use in the best way and in different parts of the world low cost labor, low cost raw material, but in the other hand, they are to transfer advance technology and knowledge to poor areas in the world, and in return will help society to develop and integrate faster as whole. Companies are certainly searching the cheapest sources of labor, and raw materials, but yet there must be consensus of how we do things. Many experts explain that the growth is due to economies of scale, other that companies become better, more efficient becoming bigger and producing more. My personal view is that they merge because in order to compete globally and gain market share they have to compete with larger companies and if they do not act jointly they simply cannot compete. In my opinion in order to achieve this important task you must take into consideration "Strategic Management and Good Leadership" in order to be successful. Now, the most important question is how do you find the perfect fit to make this possible. So the main issue is "How to fit".

An important factor to mention in here is that unfortunately not all M&As have been successful, for the contrary they have been a disaster they continue move forward. They are not finding the perfect fit (**see attachment I**). There is an entire process that companies go through when they merge together. Some of them worry over personal matters, administrative matters, and others about implementing their way of doing procedures,

equipment, styles, culture, philosophies and many others factors. We could say that M&As are becoming a common word in the business world today. Therefore, how a Theory is defined in dictionaries and encyclopedias, we must understand it. A theory: is the act of viewing, the contemplation of reality, a belief, a policy or a procedure proposed or followed as the basis of action. "A man could learn better from actual experience than from a book". It is also a coherent set of hypothetical definitions, conceptual and pragmatic principles forming a general frame of reference for a field of inquiring as for deducting actions such as the importance that the research undertaking will be significant; and how its findings will contribute in the world of business knowledge. Also, in how should be considered and undertake the correct actions in order to be successful in a Merger and Acquisition process. Therefore, based on abstract knowledge v/s practical experience, we could say that based on abstract knowledge, in theory, M&As is the easiest way to provide a rapid method of creating corporate strengths, gain competitive advantage, correct weaknesses, synergies and many other problems or solutions. But we could also say that in practical knowledge a theory of M&As are not so easy to achieve. Because, before you take the decision to enter in the M&As process; the success of it will only depend in finding the perfect fit of both companies, reaching that perfect fit and how to taken into action that perfect fit, it must be accompanied by a very well orchestrated strategic plan and by it must be guided by a brilliant Leader. Mistakes are most common, because nobody is perfect. But you can prevent things from happening; you can take measures in order to succeed. In my opinion there are two basic principles that you must adopt in order to maintain the process on track, alive and achieve the real goal: "One of them is Strategic Planning and the other one Good Leadership". Otherwise, you cannot make things happen.

This mergermania wave has taken place in the USA in last few years, and now, Europeans are entering in the game (strongly), and finally, both Americans and Europeans are the main players. The Economist states in one of its articles. " This consolidations do make sense - at least on paper (Exxon - Mobil hopes to save several billions of dollars a year). But study after study of past M&As has showed that two of every three deals have not worked. The only winners are the shareholders the acquired a firm. Who sell their company for more than it really is worth". The real success will depend in their ability to create added value. One of the main problems is the culture, philosophy, and these differences can poison collaboration. The future in the M&As process is going to be a fascinating field of study, now and in the future. Powerful people will be needed to clean up the mess when thing go wrong. Stars in negotiations, brilliant speakers, and charismatic personalities. People with a lot of wisdom, people with Leadership. Imagine that M&As affect the lives of many individuals in the company acquired and the one that is acquiring another, affects business and communities, represent substantial changes to industry & organizational structure. In one hand the society as a whole. In the other, impacts efficiency and competition, additionally the Target Company has to be worth more to acquirer than anyone else is. To maintain a balance you must establish good leadership, open channels of communication, indicate what is happening to personnel, explain why it did occurred, have the will to answer questions, invite people to meetings be simple and transparent, create new things to be innovated, motivate people, involve people in decisions create policies of transition and most importantly create vision of future. A clash of culture and values often occurs when one organization acquires or merges with another. This clash or difference in culture and values is the primary reason for disappointment and failure in acquisitions and mergers.

Taking in consideration that there are a lot of failures, the graphic (**see attachment II**) it shows that despite the fact that there are a lot of failures; M&As continues to growth.

Perhaps is not too difficult to explain: the reason is simply: “Globalization”, if you do not get there first, your competition will.

### III. INTERNATIONAL STRATEGIC MANAGEMENT CONCEPTS

Suffice, is to say that strategic management refers to the set of managerial decisions and actions that determines an organization's long term future. It is about designing the corporate organization to provide a product or service that will have value for customers or clients. It focuses on positioning an organization relative to other organizations to ensure competitive advantage. Strategic management provides a rationale for coordinating activities throughout the whole organization. Sometimes, you must look strategy like in a war basis, you must look what is behind, you cannot make a move until you are sure that you have a superior force. You must learn the rules of the game, and when everybody thinks that you are good at it, change them that it will surprise them. In terms of risk, always do something that someone else thinks you will never do. (Of course always, limited by a fare play), taking into consideration, laws of ethics, policies and resources. A good strategist always assumes several situations. Must gather information, create scenarios, consider the external and internal environments, look into your strengths and exploit them search for your weaknesses and protect them. Look what is best for you. Study the Industry, do an analysis, look for issues, recognize if there are problems, search for alternative solutions, select the best one, implemented a Corporate Strategy and control it (**see attachment III**). Involve managers, make them participate, teach them, tell them that they are paid to take decisions, teach them about the organization. Teach that they are responsible for their job, give incentives, teach them that they must delegate, that they have

to teach others about their job if they want to advance, look for people that make an effort in make people advance. Teach people about loyalty if you are loyal to your employees, they will be loyal to you. Must give a vision -- If you are going from A to B, you must understand and know why you are moving there. There are so many factors, tools, and ways to search for good strategies, but most importantly, there are too many issues but try to concentrate in basics of Strategy seeks to, because Strategic Planning helps you to:

- Find and exploit your competitive advantage
- Strategic planning helps to implement and maintain advantage
- It helps you to develop tactics, take actions and achieve goals
- Give you efficiency doing the right things.
- Helps you discover on time critical factors
- To design

In another words, there are so many things that we do not see because most people and companies learn meanwhile thing occur. In another words in a day-to-day basis. Without Strategic Planning and knowing your surroundings, it is very easy that you will not be able to achieve your vision and your goals.

William Werther, professor at University of Miami states that “The purpose of Corporate Strategy is to gain a sustainable, competitive advantage over competitors.” Corporate strategy is and will remain changing, because the environments are constantly changing.

The most important factor is always to gain a sustainable competitive advantage. He also states in summary the following:

- Strategy: seeks to find and exploit a competitive advantage.
- Strategic Planning: identifies the actions needed to effectively obtain and maintain a competitive advantage.

- Tactics are the day-to-day actions taken to achieve the overall strategic plan.
- Efficiency is concern with the conservation of resources, more directly, "Doing things Right".
- Critical Factors for Success are those limited number of business variables that make the most substantive contribution to business success.
- And finally, Strategic Fit is the match between customer's needs and organizational Strengths.

If you have to review the Merger & Acquisition process of this two companies they must understand that they have to go through it, and must make sure that in order to be successful in the integration process. Loctite and Henkel and in their Strategic Management plan, the companies must check and must monitored at all levels their activities. The Management teams must find at these stages its **Core Competencies & Capabilities** (of each company) their perfect fit. (It will be analyzed and described, further down in Porter's Five Forces Model).

Therefore, in Strategic Management the fundamental Basic steps are:

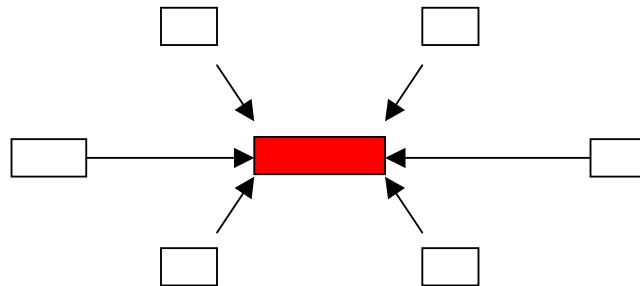
- To define the mission statement: a company must answer where are we, where we want to be, and how do we get there. To answer this in turn, you must make a detail analysis of the firm internal strengths and weakness, external opportunities and threats to confront it.
- Determining strategic objectives
- Formulating a master strategy
- Setting the organization structure
- Implementing the operating plan
- And control – monitoring implementation and measuring performance

Identifying, nurturing and capitalizing on a firm's core competencies and capabilities are key elements in the development of a strategic posture are likely to lead to superior performance. Core competencies/capabilities are bodies of expertise, organizational skills or systems, which are perceived by the customer as providing exceptional value. They are substantially unique, and they typically lead the company into new products and/or markets. Medium sized companies are likely to have few things, which meet these criteria; but in fact, few are needed, as many competitors will be found totally lacking in this area. High performance companies will have clearly understood core competencies, medium to low performers either will not have such competencies, or will fail to recognize and capitalize upon them. As it builds its Strategic Plan, a company should systematically identify its position with regard to its core competencies/capabilities. Management tends to focus on their own areas of responsibility and fails to see their own company's larger picture. Often, rephrasing the question to identify a firm's "competitive advantage" can help the identification of their structure. Having identified current competencies, the company needs to carefully assess the likely viability of them into the future. In this world of rapid change, competencies, which provide superior performance today, could well be eclipsed in the future by newer competencies more highly valued by the customer. Corporate Strategy must be skilled in helping other individuals accurately to assess their position with regard to core competencies/capabilities. More importantly, they provide important guidance in the development of appropriate strategies for building and capitalizing on those competencies. This is where the path to superior performance often begins and adds value and to give the right organization to your company, there are three classic strategic structures:

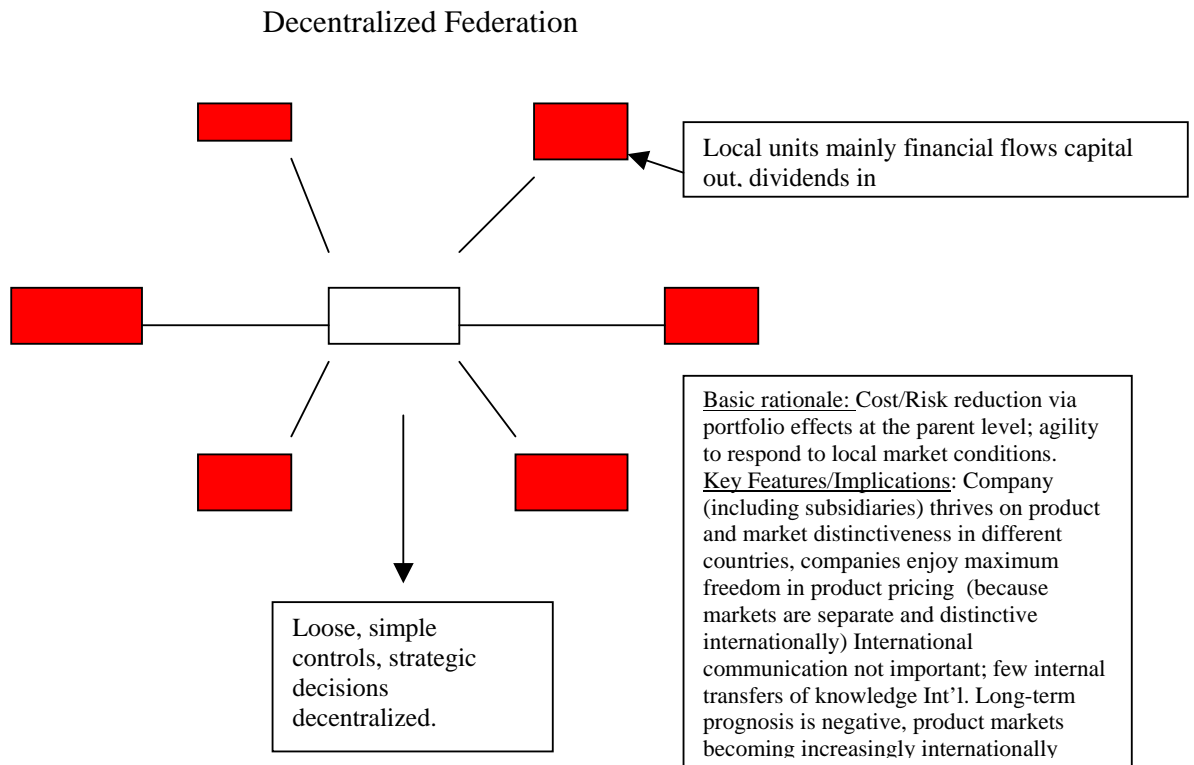
- Ethnocentric: Typical of a multinational structure (centralized Hub), mainly flows of goods, tight, simple controls key strategic decisions made centrally.

Basic rationale: relies on scale economies and learning to develop and sustain a low cost cutting via learning curve effect transmitted by parent to subsidiaries.

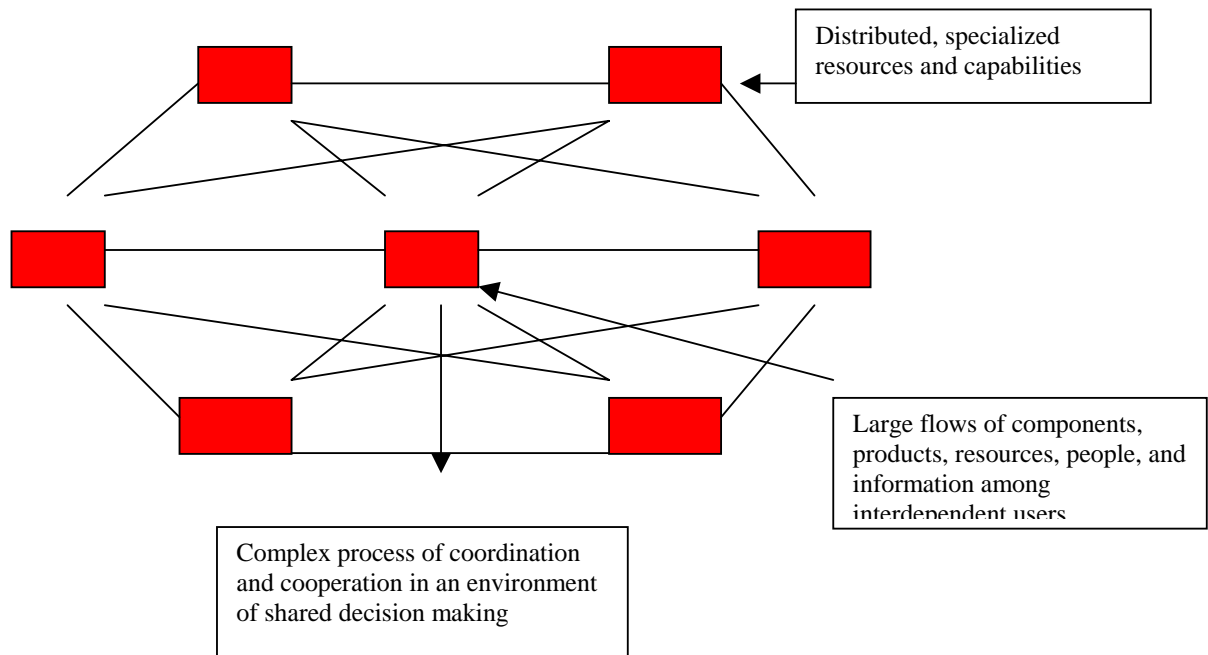
Key Features/Implications: the company strives for globally standardized products, targets market niches that are similar internationally. Strong headquarters involvement at all levels, often the co. Overlooks new markets, extensive communication needed (hard to achieve over long distance)



- Polycentric: a polycentric organization is managed in a decentralized manner, local affiliates have a high level of autonomy in decision making therefore they are very responsible on their local market conditions.



- Geocentric: an organization management style in which the firm views the whole world as its relevant market for decision making, and in which no one country dominates these decisions.



**Basic rationale:** optimized ethnocentric and polycentric systems. **Key Features/Implications:** The company is typically organized on a matrix basis – product and geographic divisions. . Best structure for handling changing market preferences and new products, internal communication is critical, Key personnel developed over the long term and on the basis of global experience.

These strategies aim at capturing companies' best growth opportunities and defending against external threats to its

This is the firm that it is called “think global, act local”, or Transnational well being and future performance. A well-conceived strategy attempts to build upon both companies' strengths and correct important weaknesses! At the same time, at the strategic planning process i.e., you will do a study of the Industry based on an exhaustive detail of the industry and give recommendations for the companies which type of strategy to be implemented. e.g., a corporate strategy in terms of what are you good at (in marketing for example or low cost manufacturing), or by Business Units (Competitive), or a functional strategy (support) or outsourcing. To do this study you usually do apply a Porter's Five Forces Model analysis.

In simple words, Strategic Planning is best described simply as: "How to get where you want to go, with what you have or can get." But you must study your environment internally, as well as externally. Another, way to measure your company value added is by measuring the Traditional Value Chain, (see **attachment IV**) it describes, how most companies evaluate their value added or how other companies are changing their way of evaluating their Value Chain Model, as in the case of Ikea Company.

But global competitiveness in the new Information Economy is forcing us to change some of our basic business paradigms. Increasingly, information and communication technologies are stripping out time and distance from the value chain of organizations all over the world, and are often a part of a distant 'local' value chain. Companies are using the new global information infrastructures like Internet to outsource work everywhere, even to their customers! New emerging electronic commerce is changing the future of organizing your company structures, today must start thinking in the future you end up even to have a company with a Virtual Organizations Structures in Internet. Global information and communication resources are becoming available to everyone at extremely low cost. This shrinking importance of bigness is creating an explosion of small and medium sized business around large conglomerates. For the conglomerate the management of alliances with these multiple business partners and the challenge of tying the whole together into a 'business network' that adds maximum value to the customer is a new management challenge and requires new corporate competencies and organization.

From a business view this mutating value chain may appear chaotic and exceedingly complex. However, from the customer's view this new attitude to the marketplace provide the best of all worlds - providing products and services any time, anywhere, and a world of

unparalleled choice. Finally, in strategic management you must also take into consideration the mentality of the company and they vary from:

- International: Home Market Dominates (Coca, McDonalds, replicate everywhere)
- Multinational: Multiple, national responsive strategies, risk diversification.  
Decentralized searches for budget
- Global: Global products / High efficient Production, Economies of Scale (Lower cost) Centralized (Japan)
- Transnational: Balance Global and Local Pressures, new scale economies, universal product, adapt to local markets.

Combining these strategies guides you in how to optimize and structure your company.

And in my own personal opinion the world is moving towards that way.

#### **IV. LEADERSHIP CONCEPTS**

Everywhere we look we see leadership, in politics, local government, regional, national, global, religious, military, home and of course in business. According to Ph.D. Professor, Sanford Ehrlich from San Diego State University. You do not need a formal position to be a leader. A leader does not manage things, a leader leads people. Not because you earn a paycheck makes a difference in the measuring people's life. "Leadership is a noble pursuit". When you find a real leader you will see that is not power or money what he/she is after on the contrary they are searching to leave a mark, a statement "Javalquinto was here". Pillars of profit by Shlomo Maital. "The New General Manager", a real leader their wildest dream with is to say the impossible is possible, to make the world better, to give opportunities and the pay is secondary. (see **attachment V**)

What characterizes great leaders: High capacity to store information and data, and how to associate them to extract logic and rational responses out of it and at the right time. Another, characteristic is the assimilation of a clear vision of things and is able to go straight to the point or problem. But most importantly, is to express his/her feelings strongly and with determination, which demand in reality a lot of energy and a lot courage.

Definition of Leadership: Leadership is a process between leaders and collaborators through which we achieve appropriate actions beyond the expected.

Basic principles of Leadership: Desire (assume a role), Commitment (lead with example), Responsibility (to your self and your team), an Accountability (Believe in your word). In the world that we live, you will have to select the right leaders. They must require, a clear vision, respect different aspect of leadership such as power distance, masculinity v/s femininity, individualism v/s collectivism, strong v/s weak. He/she will require modeling the way, to encourage the heart, search for justice and lot knowledge.

Evaluate yourself, and find you're individual values, and that will clarify the purpose of your life. In an M&As process you must find Leaders of Change that will lead you and your teams to find the perfect fit. Leadership and Innovation, Ph.D. Professor, Sanford Ehrlich states that "leadership is inextricably committed to the process of innovation, of building ideas, methods or solutions into use. He adds further that the leader must be able to make decisions under conditions of extreme uncertainty. Therefore, how do you find or create a leader. You start with yourself. Then with others. Are they self-made, are they born, did they gain by experience. It really does not matter how Leaders arise, what it matters is that when you are leading people you could find out more or less if some people can be leaders or if they can not. There several ways, and one of them is having them taking the "Leadership Practices Inventory Test" (see **attachment VI**) This test at least will help you

to see their behavior and skills. The test will guide you to find the leaders that you need especially in M&As process.

Leader of Change, is a person that with his/her attitudes will be able to make an organization to change. The process itself has only three parts to be considered in order to influence people organizations or change: The Final goal is to give have a Clear Vision, to people follow thoroughly, otherwise uncertainty create chaos and take your company go down. Be clear to people and show them that you are a Change Leader and tell them:

**First, Where are we? / Where Do We Want To Be? / How can we get there?**

Planning work is far from easy. "Is it, senior management's responsibility to plan for the future; no one else in the organization can do this job?" Is that a fair statement, should it really be that way or should more people be involved? Second, the payoff is high because strategic planning alerts an organization to opportunities and dangers in the world around it and focuses everyone's efforts toward a planned future. Strategic planning and leadership can save companies in trouble or keep things under control when a company is growing explosively. Let us consider each part of the process:

**Where Are We?**

Here, management looks at financial history, marketing position (products, competition, and market share), problems and opportunities. Although companies ought to have this information available, they often do not and a lot of hard digging is required to build a reliable foundation for planning decisions. That is bad.

**Where Do We Want To Be?**

A time for visioning, creativity, and looking beyond present issues. We ask the corporate equivalent of the age-old question: "What do you want to be when you grow up?" An

exciting vision galvanizes everyone: Ford declares, "Quality is Job One!" Then we make our vision concrete by setting measurable goals for profit, market share, and the like.

### **How Can We Get There?**

Here Leaders must develop strategies to accomplish your goals. The planning team uses all they know about their companies and their business plus all the creativity and strategic thinking they can muster to conceive new directions that will carry them into the future. Leaders of Change, their decisions will be continuations of the tried and true, they are determined and some will astonish the competition. All are tightly connected to the goals. Finally, they will develop action plans to execute strategies. Each has costs, staffing, payback, and a time line. The sum of action plan projects over, say, the next three years, represents the expected value of your planning effort. Start on them at once, remembering: Planning is not about what it will be done in the future, it is about what you will do now to make the future all you want it to be.

### **Second, Market Focus**

Leaders of Change will not lose Market Focus Strategic Issues; they are fundamental to the long-range viability of most firms. In fact, the Strategic Issue in many firms is a lack of Market Focus. That is, the firm has not systematically defined its target market segments and their priority. Effective decision-making is based on good data on existing markets, including the current position in the market. Henkel had a clear idea "Enter in the USA market", the profitability obtained from serving that market and the outlook. Of it was great. Often this data is severely limited, requiring substantial preparation for effective decision-making.

Good Leadership will continue to search for new market opportunities is an Strategic Issue for both companies to help in that perfect fit that is frequently encountered, obtain the most

of it. Requiring an understanding of the firm's capabilities and competencies, this area demands good external vision, seeking out previously untapped opportunities and an understanding of the impact of environmental changes. While the issue for some firms is finding new market opportunities, others need to focus on their target market, as they find themselves spreading their resources over too many different market segments. Careful analysis of existing segments will add value to the firm and their outlook will lead to the best decisions required.

As a Leader or as the New General Manager (Shlomo Maital) most knows a lot. I think that decisions need to be communicated horizontally and people simply need to be certain of all the facts. In some cases they do not know what was happening in the company. A leader must help your employees, guide them and lead them demonstrating awareness of their feelings and reassuring them changes will not devalue past contributions. In this case, Henkel - Loctite are a tremendous corporation but there is a lot of lack of communication, and most importantly uncertainty in the future. As mentioned above, the basic principles of leadership states that you must Have Desire, Be Committed, Be Responsible, and Be Accountable. In the global aspect I believe that both company have achieved that, but at the local level not, there are too many cultures. e.g., just think for a moment in the Exxon – Mobil merger. They are already talking that they will cut 7,500 employees. How do you think people is reacting right know. As a Leader of Change you must watched your planning team develop Action Plans to meet corporate objectives. Whether or not they recognize it, they have become change leaders: your people are going to have to do things differently - - like the Leader. Understanding what they and their people are going through will make implementation better and faster and your leadership more effective. The basic issue is that although the rate and intensity of change has escalated over the years, human

nature has stayed the same. Research shows that people goes through an inescapable cycle in dealing with unsought change. After all, change means the end of old ways and the start of new ones. Even though your planning team initiated many changes, they are not immune; they just start farther along in the cycle. To begin with, people do not change because they are told neither to nor because of information: labels have small impact. Rather, people change when they feel that their anxieties about loss of competence, territory, and control are understood - - that's human nature. As mentioned above, your job is selecting Leaders by the LPI test and makes your team's job demonstrate how important is the understanding of change, but “as a team”. At first, people focus on things as they were and deny the change; be very clear that change will happen and allow time for the news to sink in. As Leader of Change you will find yourself repeating the vision and its objectives again and again. Next, people turn inward preoccupied about what will become of them; they get angry and resist. This is a time to listen, acknowledge feelings, and deal with some of their concerns. When the need for change has been made clear and feelings acknowledged, they begin to explore what is new and consider how they might deal with it; energy is released. This exploration phase is chaotic but here is where opportunities live: every soldier knows that war means medals and promotions. Give your people resources; set short-term goals, train and brainstorm. Finally, they are ready to commit. Now you can set longer term goals, build the team, and look ahead. When 5% of your team commits, change is embedded; when 20% commit, it is unstoppable. Reward and celebrate innovation and accomplishment. As a Leader of Change you must detect those who cannot change; they are the casualties of war. Successful change management means understanding that change is difficult, treating your people humanely, allowing time for them to turn the corner, and trading your control for their individual self-direction and

ingenuity. For the Leader of Change, it means being a champion among champions managing the company in a whole new way. As Leader of Change you must find stars and they have to become Team Managers:

**Third, Team Project Managers:** must: specializes in assisting organizations in crystallizing the real culture and values of an organization, modifying, where appropriate; communicating effectively throughout the organization and winning the commitment is very essential to continued success. To find what are your real "Strategic Issues in the company", create Cross-Functional Teams. Top performing organizations provide some great lessons about managing strategic change and the benefits of employing teams for that demanding responsibility. Leaders in those firms demonstrate the obsession toward performance by broadening and elevating the responsibilities given to teams (action plan teams, cross-functional teams, and self-managed teams). Teams—starting with the CEO's team—represent a leadership tool or discipline that serves as a basic building block upon which the entire organization and its change management rests. The cross-functional team is simply a group of people who come from (and often represent) different parts of the organization and who are committed to a common purpose. The team will approach achievement of performance goals in a manner in which they hold themselves mutually accountable. Within each cross-functional team are the implementation skills and business knowledge necessary to seize opportunities and / or wrestle with complex strategic issues. To be successful, select the team participants with care, gain the support of those affected, and give equipment to all with prerequisite skills and tools. "Sooner or later Strategic Planning degenerates into work..." an acid test is the ability to accomplish the demanding or risky programs that are critical to future success. Real implementation requires translating the strategic issues down into the organization and energizing all levels by

providing a sense of realism and trust. A cross-functional team may be the essential ingredient to establish genuine commitment and ensure results.

**Fourth, The selected leaders:** after taking the Leadership Practices Inventory (LPI) test will have the criteria to guide people in tailoring the teams to approach work in the context of your culture, your vision and your strategic issues. "And how they make the perfect fit". How could you define Strategic Thinking, people often ask, "What is Strategic Thinking?" To define what is strategic thinking: Most people would agree that it could be said that is in "Thinking about the Future - - not just random thoughts - - but specific thinking about specific future issues". It means setting aside time, preventing interruptions and just thinking. What is it we want in the future - - and how are we going to get it. Strategic thinking sets the stage for you to take action now in order to impact specific future issues. It encompasses a whole range of topics, from the values and vision to the plan for organizational development. From strategic market positioning to capital planning to leadership succession. From corporate culture to leadership styles. All those are far off things that you can make choices about today so; you can influence what they become tomorrow. For strategic thinking to work well, you first must understand your business purpose. This means understand the things you do well, the products or services derived from them, and the markets for those products and services. This defines your basic business, and sets the stage for strategic thinking - - thinking about how you will go about the business. In short, maintaining focus, thinking long term, sorting out what is important versus what is "noise" and acting accordingly does strategic thinking. As a basic rule companies should try to integrate and make more participative all of its employees in the world of both companies. Because Loctite stands for the same goals as of Henkel's ones. That is what Loctite stands for and at the top management people in the company, they

know that their goal is to help people, and business so they can be successful, to manage the entire business operations, manufacturing, logistics and physical distribution of products, the management provides key measurements to ensure control, focusing on areas that requires corrective action, driving cost and quality improvements programs in order to become a real partner to customers. Therefore, in order to accomplish successfully integration between each SBU, either at Henkel or at Loctite the company must established the following set of standard procedures:

- a) Establish good channels of communication
- b) Project Manager, or Operations Manager (Facilitator)
- c) Assign Resources
- d) Check for opposition
- e) Check for proper responsibility assignments
- f) Plus all implementation methods mentioned above

A study done by The Roughly Park Management Institute: In the graph (**see attachment VII**) did find that the main reason that M&As fails, is due to the Human Resource factor. That is the key element to avoid failures in the process of an M&As. To explain that The Human Resource factor is not being taken into consideration? They argue that the first reaction is the clash of cultures of work provoking uncertainty on workers. M&As intent to consolidate the central business or the perfect fit of both companies, including the Intellectual Capital. They add that to be successful you must keep people informed. Otherwise, it fails.

e.g., case study from The Harvard Business Review:

Asean Brown Boveri (ABB), how did management Leverage Corporate Performance in one of the most successful mergers so far. In 1987, this is one of the largest M&As at the time.

The company introduces with his CEO one of the most radical concepts to take their company into the future. They said tomorrow's most successful companies would have to have a strong integration process to link their diverse assets and resources into corporate competencies and leverage these competencies in the pursuit of new opportunities. It is imperative to a company can coexist at the worldwide level there must be an entrepreneurial management at the national local level. Broader the integration process so it can be built and managed. The elements for an Entrepreneurial process must be: Small (aggressive targets), Rigorous Financial Discipline, A structured new product creation process supported by a flexible multistage resource allocation system, and most important "A clear vision" in the definition of their Strategic Mission, in terms of utilizing its technology strengths, in order to develop products with superior functionality. Creating work units of entrepreneurial corporation – each responsible for specific customers groups of product lines or functional competencies creating an enormous force which integrates the company aligning the company with a clear and motivating organizational values and give incentives to develop and to have a the management group have a company Leader at the same time. This company is based on the Principle of Absolute Equality of Human beings, individual initiative and rejection of authoritarianism. Free access of information, Flat structures, with small number of Senior People, in which information "All information", is shared horizontally. In today's world information is the only source of competitive advantage.

This is a co. With a total creative revolution, that pulls together teams and task forces from different parts of the co., to find creative responses to emerging problems and find new opportunities. Providing order and efficiency, it must find the knowledge with the organization by:

- i) Rationalization and restructuring existing business to achieve operational performance. Components: Focus – Resource – Effectiveness = Continuous Growth
- ii) Revitalization by the creation of new competencies and new business, changing the rules of the game. Ideas increases, Business go up, and the Company Growth fast

ABB believes that there is no long-term success without short-term performance results. The mixture is inevitable but rationalization will provide the resources needed for revitalization and revitalization creates the hope and energy to be successful. To inspire self-renewal companies you must create develop an inspiring corporate ambition. A shared dream about the future and the company's role in that future. This Leader does not worry about the future is going to be, he is building it, and he is building it because the world is changing. The real point in ABB is that the importance is that the Leader must be able to make is vision to indeed to whole organization.

This is one best M&As cases, never the less in Leadership Concepts you must add the philosophical part of it which is to control the four cardinal virtues “Justice, Prudence, Moderation and Strength” and keep a balance among them. In my opinion, you are loyal because your boss is loyal to you and you will do anything for them, because you know that they will do anything for you.

## **V. LOCTITE BACKGROUND, BUSINESS DESCRIPTION AND THE ACQUISITION**

In January of 1997, with Loctite's with sales in excess of \$800 million, and Henkel KGaA, a German company with significant holdings in Loctite, acquired the company in 1.3 billion. Loctite began with a conversation between a father and son and grew into a business that currently generates more than \$800 million annually. Today, with 4,200 employees worldwide and operations in more than 80 countries, Loctite manufactures and

markets a broad range of high-technology sealant, adhesives and coatings in nearly every country around the world. Computers, automobiles, airplanes, vacuum cleaners, speakers, syringes, cosmetics, and compact disk players are just a small sampling of the items that are made with Loctite products.

The company often develops into complex equipment used for application and assembly as well. Growth through Innovation and Acquisition. Loctite grew rapidly. In 1956, sales totaled \$7,000 though net income was at a deficit of \$17,000. But by 1964, sales had reached nearly \$2 million and net income jumped to \$220,000. From 1964 to 1970, sales quadrupled and earnings sextupled. From 1971 to 1975, sales again quadrupled -- to \$67 million. On October 26, 1976, Loctite's stock was admitted to listing on the New York Stock Exchange. To fuel its growth, Loctite allocated an increasing amount of money to research and development and to the strategic acquisition of other, related companies, such as Laguna Scientific Industries, Permatex Company and Woodhill Chemical Sales Company. Loctite merged with International Sealant in 1970 and also acquired several of its overseas distributors throughout the 1970s. Bob Kriebel, who became as well, liked a leader as his father, led Loctite through acquisitions, reorganizations, a public offering, a merger, and international expansions, before retiring in 1980. From 1980 to 1995, Kenneth Butterworth took the helm, as president and chief executive officer. David Freeman was named president in 1991, added the CEO responsibilities in 1993, and was appointed chairman in 1996. Throughout its history, Loctite has continuously created markets by discovering opportunities where no one knew they existed. From its founding, based on a product that solved an "unsolvable" problem, Loctite has achieved success through innovation. Worldwide simultaneous research, development and engineering (RD&E) are the key elements to Loctite's success. In fact, approximately 25 percent of Loctite's sales for

1996 came from products developed within the last five years. In 1996 alone, Loctite invested \$30 million in new product development and dedicated more than 250 employees to working on RD&E projects. It is this kind of commitment that has earned the company's research engineers more than 400 patents and has provided Loctite customers with a constant flow of new products and innovative solutions to the cost-competitive demands of the industry.

### **Research & Development**

Loctite is in the business of solving customers' problems. When a customer buys Loctite, they get more than a product -- they get a partner who will work side-by-side with them to find innovative solutions to their manufacturing problems. From engineering and testing programs to manufacturing products on the factory floor, Loctite brings a world of expertise and experience to its customers. In a design-through-assembly partnership, no one adds value like Loctite. RD&E efforts are located in four Worldwide Centers of Excellence: **Rocky Hill, Connecticut, U.S.A - Munich (Hochbruck), Germany - Yokohama, Japan, Dublin, Ireland**

These Centers of Excellence form an engineering nucleus of expertise and test capability that is unsurpassed in the industry. In addition, the company's 30 strategically-located Technical Service Centers offer technical support to manufacturing segments around the globe; and the company's state-of-the-art manufacturing sites guarantee an uninterrupted supply of top-quality products. Loctite manufacturing facilities have earned ISO 9002 Quality System Registration and have won recognition for superior quality systems from numerous companies including:

- General Dynamics, Caterpillar, OSRAM Sylvania, General Motors, Texas Instruments,
- Siemens, Ford, Kelsey Hayes, Motorola, Chrysler, Allied Signal, Borg-Warner.

### Organization

Loctite was a global company from the beginning. Distributors were set up in the United Kingdom and throughout Europe in 1956, and products were shipped across the Atlantic Ocean before they crossed the Mississippi River. Today, the company does business in 80 countries in four geographic regions: North America, Europe, Latin America, and Asia. The company is organized not by country but by market channel, which enables Loctite's employees to synergize efforts and expertise worldwide.

These market channels include:

**Industrial Automotive - Automotive Maintenance - Electronics Industry - Home**

**Consumer - Industrial Maintenance - Industrial Production - Medical Equipment**

Loctite products are "designed-in" at high tech electronics manufacturers. Loctite products keep customer's production lines running. Loctite products provide consumers the performance they demand at the right price.

**“The Vision shared in Loctite is the continued development of a company with Global Reach capable of PENETRATING EACH MARKET within that reach, and PRODUCING STEADY PROFIT AND SALES GROWTH over the long term, fueled by a constant flow of new products which provide INNOVATIVE SOLUTIONS for its our customers.”**

**“To secure this vision we will maintain the highest focus on being our customer’s LOWEST COST SUPPLIER, Giving our customer the BEST SERVICE for their current and future needs, Providing a HIGH QUALITY PRODUCT RANGE manufactured to a world standard, Ensuring that we have a RELEVANT**

**ORGANIZATION STRUCTURE staffed by WELL INFORMED and APPROPRIATE TRAINED EMPLOYEES, Conducting our business everywhere in the world in an ETHICAL AND SOCIALLY RESPONSIBLE MANNER, Maintaining TECHNOLOGICAL LEADERSHIP, and Ensuring that the BEST ECONOMICS are applied in doing our business?.**

**VI. HENKEL'S POSITION & BUSINESS DESCRIPTION AFTER THE ACQUISITION OF LOCTITE**

Loctite's new position in the Henkel Holding (see attachment VIII). More than 120 years of Henkel tradition, The Beginnings. The Company founder, Fritz Henkel, around 1880. On September 26, 1876, the Hessian merchant Fritz Henkel (1848 - 1930) set up the company Henkel & Cie in Aachen. In 1878, he moved his plant to Düsseldorf because of more favorable transport conditions. A former soap factory rented on Schützenstrasse soon became too small for the Company's expanding production. In 1880, a new building was erected on Gerresheimer Strasse. This site could, however, not be enlarged as the Company expanded; it moreover lacked a railroad connection. The suburb of Holthausen offered a more favorable location: a large site which could be further expanded, the Rhine and the railroad as transport routes. In 1899, new production and administration buildings were constructed at this location. The Company's site has grown from originally 600,000 s.f. to 16,156,000 s.f. today. The first factory in Düsseldorf, Schützenstraße, 1878 – 1880: Production plant for APG The first factory in Düsseldorf, Schützenstraße, 1878 – 1880: The new production plant for APG in Düsseldorf-Holthausen. From 1904, the Company took the legal form of a general partnership (OHG); in 1922, it was transformed into Henkel & Cie GmbH (a manufacturing business) and Henkel & Cie AG (a selling organization). In 1950, Henkel & Cie GmbH became Persil GmbH (Henkel GmbH in 1969, Henkel KGaA in 1975) while Henkel & Cie AG changed its name to Henkel & Cie GmbH.

Following the early establishment of selling centers in adjoining countries, the first subsidiary was founded in 1913. In 1939, the Group comprised 15 European operations besides the Düsseldorf plant. In 1998, the Henkel Group had more than 330 consolidated companies in more than 60 countries. The major business activities of Henkel in Europe are in the countries of the European Community; its most important overseas markets are the U.S.A., Brazil, Mexico and Asia/Pacific. Today, over 70 percent of the Group's world sales are realized in foreign countries. Since January 1, 1975, Henkel Kommanditgesellschaft auf Aktien (KGaA) has been the holding company of the Henkel Group. In 1985 Henkel preference shares were introduced on the stock exchange. Albrecht Woeste, a great-grandson of the Company founder, is Chairman of the Supervisory Board, and Dr. Hans-Dietrich Winkhaus is President and Chief Executive Officer. The parent company in Düsseldorf is the most important company of the Henkel Group; it handles most of the Henkel business in Germany.

### **Production**

- Henkel's Bleaching Soda of 1878, Persil, invented in 1907, The Company's first product was a "Universal Detergent", which was replaced after a short while by "Henkel's Bleaching Soda" (a powdered mixture of soda and water glass). To reduce costs and achieve the highest possible quality, Henkel began to produce its own chemical raw materials in 1884: Rheinische Wasserglasfabrik of Herzogenrath was acquired and partly rebuilt at the Düsseldorf plant. Today, Henkel operates the largest water glass factory in Europe. In 1907, Henkel came out with the first self-acting detergent in the world, named "Persil" from two important components, perborate and silicate. This novel type of product made laundering less of a chore to housewives and rendered grass bleaching superfluous. Persil brought Henkel rapid growth and international credit. Henkel products were among

the first German consumer brands. They were of unvarying quality, uniformly packaged, and available everywhere. The "Henkel" brand, which guaranteed consistently good quality, won the consumer's confidence. In its advertising, Henkel opened up new paths by imparting technical information on its articles rather than boasting them. An extensive sale organization was set up; in 1914, Henkel already had a sales force of 120 salesmen. In 1908, Henkel constructed its own soap factory for detergent production. From 1909, fatty acids, from which soap is made, were produced in the Company's own fat splitting plant. The crude glycerol ("sweet water") obtained from splitting operations was further processed in a glycerol factory built in 1910. For more than 40 years, the Company's sole purpose had been the production of washing and cleaning agents. When adhesives - used, among other things, for sealing detergent packages were scarce in postwar 1923, Henkel started its own adhesives production. This was the beginning of an adhesives plant, which today manufactures the most comprehensive line of adhesives in the world. On the basis of new findings on the detergency of phosphates, Henkel developed new products and processes in 1929, which were collectively, named "P3". These were cleaners, degreasing agents and disinfectants designed for industrial and food applications. After the acquisition of Thompson-Werke in 1930, Henkel began to manufacture household care products. The further development of the Company was decisively influenced in 1932 and 1935, when Henkel acquired Deutsche Hydrierwerke of Rodleben and Böhme Fettchemie of Chemnitz, which had shortly before launched "Fewa", the world's first synthetic detergent. In 1946, the production of textile and leather auxiliaries began in Düsseldorf-Holthausen. In 1947, the Company started to manufacture and market cosmetics and personal care products. The Düsseldorf-Holthausen plant is the largest production site of the Henkel Group. After 1945, the production facilities of Böhme Fettchemie and Deutsche Hydrierwerke were rebuilt on

its site. This concentration led to a considerable expansion of the oleochemical facilities. In this "oil quarter", fatty alcohols and fatty acids were, among other chemicals, produced on the basis of natural oils and fats, as well as a large number of derivatives for use in different industries. In April 1995, a new plant for the manufacture of alkyl polyglycosides came on stream. The APG plant produces extremely mild vegetable-based surfactants. **The largest acquisitions in the Company history - Loctite and Novamax - were successfully integrated in 1997.**

### **Employees**

Many of the voluntary employee benefits instituted by the Henkel Company are today taken for granted in large-scale industries but were still unusual when introduced at Henkel at the beginning of this century. At that time, more and more employees settled in Holthausen. For this reason, the Company joined Baugesellschaft Reisholz in 1911. Partly in cooperation with this building cooperative, Henkel built a large number of dwellings. Employees of the Henkel Group in 1997 total 54,247 - Germany 15,676 foreign 38,571 approx. Lunch for the employees. As early as 1900, lunch was provided at no cost for all employees at the plant. In 1912, a first-aid unit was established. In 1940, the Medical Department was set up. The Company's pension plan dates back to the institution of a benevolent fund in 1915. Today, employees of the parent company in Holthausen receive their pension rights after only 10 years of service. Since 1927, a special Occupational Safety Department has been working successfully for accident prevention, using new methods. Henkel has operated a systematical vocational training since 1925. Today, the Company's training facilities have been centralized in a modern building erected in 1966. Technical and language courses, seminars and excursions, and the Company library, already established in 1910, offer vocational training and development to all employees.

## Research

As the Company expanded, its research, development and application technology laboratories were extended, too. Laboratories around 1905. : Research in biotechnology Beginnings of systematically performed research: the first laboratories around 1905 Research in biotechnology today. After enlarging the laboratory set up at the turn of the century, the Company's first pilot plant, the Test Department, was established in 1920. It initially embraced process development functions in the field of inorganic chemistry, to which assignments in the fields of organic chemistry - especially oleochemistry - and macromolecular chemistry were added later on. In 1933, the new Main Laboratory was occupied, which today houses part of the detergent product development. Between 1937 and 1939, a research laboratory was constructed on the site of Deutsche Hydrierwerke in Rodleben near Dessau, to provide chemical and scientific research services in the entire field of activity of the Henkel Group. The Research Center in Düsseldorf-Holthausen, which was erected between 1959 and 1967 in several phases, today provides workplaces for the chemical staff, which is equipped with the latest instruments and appliances. In 1974, the new building for the Biological Institutes was completed. It serves as headquarters for research personnel who specialize primarily in environmental and consumer protection. A second research center was set up in Santa Rosa/California, USA, in 1986. In 1990, a new building which houses the Central Analysis was completed.

## Financial Outlook

The company is optimistic for the entire year 1998, with all due caution. It is expected that the positive sales growth to continue and profit to increase at least at the same rate as last two years. (See attachment IX)

## **Research and Development**

Application-oriented research and development is one of Henkel's key strengths. Extensive know-how, creativity and imagination provide the basis for successful innovation, enabling us to better satisfy the requirements of our customers. Maximum product quality, optimum price/performance ratios, market orientation and superior environmental compatibility are the goals in all research projects. Innovative research and development accounts for a substantial portion of the Company's added value. Consistent emphasis on customer orientation and substantial flexibility make a major contribution. The Company's future is assured by maintaining the right balance between rapidly realizable product improvements and long-term technical innovations. This is implemented on a product-related basis and by interdisciplinary teams. Henkel also works toward increasing cooperation between its own research centers and those of external institutions and organizations. Approximately 3,600 employees work in research and development at Henkel worldwide. In 1997, the Company devoted US\$ 247 million to R&D, with a further US\$ 101 million being spent on technical services. A large portion of our research activities is concentrated at the Groups headquarters in Düsseldorf. Product development and application engineering activities, on the other hand, are performed on a more decentralized basis. (see **attachment X**)

### **Henkel KGaA Corporate Strategy Henkel Group**

Henkel is committed to compete globally. To strive for a strong position and superior profitability in all market segments it serves. In each of these segments, the company wants to achieve ecological leadership. In its conduct, it will balance the interest of shareholders, customers, employees, and of society.

## **Business Portfolio**

Product portfolio includes consumer products, products for industrial and trade applications, as well as service systems. Focus on branded products and high-value-added chemical specialties. The performance of its products and services meets the company customer's requirements. The main activities are based on state-of-the-art knowledge in research and development, applications, production, and marketing. **Founded on the company core competencies, the portfolio of Henkel optimizes growth, distribution of risk, and profitability. The core businesses are consumer products, service and systems, and raw material products businesses.** Henkel manages and develops businesses through Strategic Business Units (SBUs) with worldwide responsibility. Their affiliate companies are responsible for the local execution of SBU strategies. The regional focus of the Company's activities are Europe, North America, and Asia-Pacific. In order to effectively exploit the development potential, expenditures for capital investment, acquisition and R&D compete for funding within a consolidated financial framework.

**The requirements of emerging, innovative businesses for funding have to be balanced with mature businesses generating financial surpluses. Product lines or market segments that do not offer the potential for sustainable growth and profits for Henkel are to be discontinued.**

## **Synergies within the Henkel Group**

International size and scope as well as a balanced business structure provide Henkel with diverse synergies. International exchange of know-how in all areas assures that new findings, methods and processes are utilized effectively to improve business and profit development:

- Henkel's worldwide raw material network guarantees quality and steady supplies within the Group. The high captive use of raw materials for processing into

derivatives leads to the secure base loading of capacities and is a key reason for the strategic competitive advantages for downstream activities.

- The synergies between branded products and chemicals result in cost-effective supplies and early access to new chemical specialties.
- Worldwide SBUs establish international product and marketing strategies; the SBUs are supported by regional centers of competence.
- Exchanging personnel between affiliated companies or business sectors and sharing processes and procedures contribute to Group-wide efficiency. These opportunities are pursued systematically.
- International computer and information systems and networks for distribution, logistics and corporate purchasing lead to economies of scale.
- The different business cycles of divisions and geographic regions stabilize corporate profit development. Balanced Group financing is the basis for growth in the business sectors.

### **Production/Technology**

Henkel's production plants, equipment and processes are state-of-the-art. They comply with all environmental regulations and are designed to meet their purpose in the most economical way. Individual plant locations are optimized within a worldwide manufacturing system. Overall Group interests have priority over individual location interests. Cost-effective and efficient infrastructure and services secure the long-term viability of the Düsseldorf-Holthausen site.

### **Research and Development**

Innovative application-oriented R&D is one of Henkel's core competencies. The group use the know-how developed at central research laboratories and at regional centers of competence, as well as know-how acquired from external sources. The goal of every R&D effort is the development of more efficient processes as well as marketable products. To continue to expedite the conversion of chemical and process engineering know-how into new products, processes and solutions to customers problems.

**The most and unique competence in using renewable raw materials and it remains a strategic competitive advantage at Henkel and it will be reinforced.**

Henkel will establish a leading position in environmental and consumer protection for its products and processes and use this leadership as a competitive advantage.

### **Employees/Management**

Henkel wants to attract employees by creating an environment that encourages performance and by providing challenging assignments. This includes competitive compensation based on performance, continuous skill development and mutual trust. Create a corporate culture that encourages employees to identify with their job in the company. Employees receive the necessary training and authority to make quick and goal-oriented decisions, thereby becoming entrepreneurs capable of managing change. Relationships with employees and their representative committees are based on mutual trust and partnership. Employee communication is not only important for performance on the job, but also for motivation, personal self-esteem and identity. Henkel is committed to open and prompt communication meeting the needs of employees. The company will reinforce direct personal communication over hierarchical levels rather than remoteness. Decisions are made by those who have the best information and knowledge, taking into account overall corporate

interests. The Management Guidelines are binding for superiors and employees. In the company they practice promotion from within. Strive for equal opportunity, regardless of nationality or gender. Qualifications required for leadership positions include international perspective and experience abroad, as well as the ability and willingness to adjust to other cultures.

### Corporate Finance

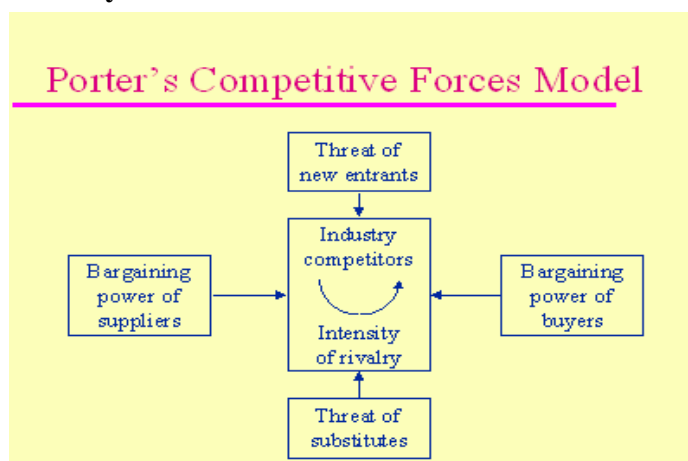
To secure financial stability and flexibility of the Henkel Group, it will maintain adequate liquidity provisions and flexible internal financing. It will avoid being dependent on the lending policies of any country and/or financial institution. As an open family company, they maintain a high level of equity. Shareholders will achieve a competitive return on their invested capital at market price. Treasury and liquidity, as well as interest and currency risks are managed centrally for the total Company.

### Partner Strategies

Relations with their partners will be maintained and expanded. They play an important role in risk diversification and profitability of the Henkel Group. Henkel seek management control in all joint ventures and alliances, and always seek licensing contracts for the use of Henkel know-how.

## VII. PORTER'S COMPETITIVE FORCES ANALYSIS IN LOCTITE CHILE

An analysis based on Porter's Five Forces Model e. g. :



### **Porter's Competitive Forces Model**

For Loctite, there is no a big rivalry present between comparable firms in this industry. The market establishes the prices so there are no price wars. The only thing or way a company can differentiate itself is through quality of the product and customer service.

### **Porter's Analysis**

#### **-The Risk of Entry by Potential Competitors is..... LOW**

The immense startup capital is a large deterrent to new firms entering the industry is Low Risk of Entry by Potential Competitors Because of the seasonal nature of the industry it is difficult for anyone to start a business like this. This factor coupled with the large capital investment of equipment makes this industry hard to enter. As far as the retail and service portions of the business the risks are slightly higher. This is due to the smaller capital investment needed for start up.

#### **-The Power of Suppliers..... LOW**

The suppliers do not have a bargaining power over the products. Low Power of Suppliers. There are many suppliers of chemicals and equipment. If there were any problems with a particular supplier, changes could easily be made with others.

#### **-Threat of Substitute Products..... LOW**

The are not that many specialized products to be a substitute. Substitute products in this industry are not a major threat. Such things as Innovation add value to products Loctite has a premium product in the mining industry.

#### **-Rivalry among Established Firms..... LOW**

There are not that many firms already established in the industry, which include the specialized type of products that Loctite offers. Low rivalry among established firms.

There are few firms that cover all of the three categories of premium products & service that Loctite offers. Therefore rivalry is not a major issue.

**-Bargaining Power of Buyer..... LOW**

The high quality and high positioning of the product make it to be a star in the market. Buyers have a low bargaining power because of the nature of the product. Those people in the mining sector will not want to save a dollar. Because they know they get a product worth the investment.

**VIII. WHAT TO DO IN A MERGER & ACQUISITION SITUATION**

After reviewing the Strategy and Leadership concepts, It seems rather clear that, I would have had implemented immediately, on a daily base a working plan in the accomplishing strategies through action plan projects. In another words, here it does translate the important work of strategic planning into urgent work called Action Plans with goals and deadlines. Ideally, after a planning session, action plans replace work that no longer contributes to objectives. Remember that prior to the planning process, everyone had a full time job. Find time for action plans by dropping or delegating less important work. Be tough about this; human nature prefers stability and wants to persist in familiar tasks. Some action plans will succeed, some succeed partly, and some will fail. How can you improve the odds? Divide action plans into broad groups: simple action plans such as process changes or single person responsibilities can be accomplished readily. Action plans at risk are those that are large or span several departments. In the first place, complex action plan projects need two kinds of management: Champions and Project Managers. The Champion is a member of the Planning Team with responsibility for clearing away organizational politics and red tape. The Champions' champion is the CEO who must continue publicly committed to the plan. The Project Manager runs the project from start to

finish delivering quality results on time and within budget. Project Managers are special people, sharply different from administrators in preferring one-time assignments managing a team doing things that were never done before. The nature of action plan projects makes them difficult to manage: Often they take place outside routine work, they always have deadlines, and they do things that have never been done before. Invariably, they are short of resources, cross-organizational boundaries (hence the need for a Champion) and recruit their team from a variety of departments. All this adds up to pressure and turmoil.

**These steps could help project managers with action plan projects:**

- Plan and Replan: Time spent planning is returned fourfold.
- Anticipate Major Problems: Problems are interesting but it's cheaper to avoid them.
- Build the Team: Team building is much more than eating lunch together.
- Learn Management Skills: Especially negotiating.

Successfully implemented action plan projects needs a special management skills and lots of it. Each moves the strategic plan closer to its objectives one step at a time.

**Culture & Values**

Most organizations that have been around any length of time have a culture that has evolved over the years and, if not subscribed to by all, is usually clearly understood as "The way we do things around here". Similarly, the values of an organization are usually recognized within an organization even if not supported and sometimes are not even the values that top management would like to think the organization portrays to its many publics. The values actually practiced by an organization e.g., the manner by which those values are reflected in "The way we do things around here" is the clearest expression of the real culture of any organization. Consistency between the culture and values espoused by the leadership of an organization and the balance of the organization is essential for

continued success. A clash of culture and values often occurs when one organization acquires or merges with another. This clash or difference in culture and values is the primary reason for disappointment and failure in acquisitions and mergers. Successfully implemented action plan projects needs a special management skills and lots of it. Each moves the strategic plan closer to its objectives one step at a time.

**"A good implementation will depend in a good implementation of Strategies"**

Relations with their partners will be maintained and expanded. They play an important role in risk diversification and profitability of the Henkel Group. Henkel tries to seek management control in all joint ventures and alliances, and always seek licensing contracts for the use of Henkel know-how. M&As, in my personal opinion, and despite de fact that the merger as gone through it worst moments. As a Leader of Change, you need to help your employees, guide them and lead them demonstrating awareness of their feelings and reassuring them that changes will not devalue their past contributions. In this case and given to the fact that these is a large corporation there as been lack of communication, and most importantly uncertainty in the future. If you are or have the desire, be committed, responsible, and accountable. In the global aspect I believe that the CEO of Both companies have achieved that, but at the local level not. Furthermore, in terns of Implementation I recommend to open channels of communication, indicate what is happening to personnel, explain why it did occurred, ask questions, invite people to meetings be simple and transparent, create new things to innovated, involve people in decisions create policies of transition and most importantly create vision of future.

## **IX. CONCLUSIONS OF THE STUDY**

The conclusions about the future of M&As, not only for the case of Henkel and Loctite, but for many of Mergers & Acquisitions that will continue to go on in the future, rests in the hands of the future Leaders of Change. This will involve determining the rationales, and key organizational features. Finding "The perfect Fit", is it there or not? In Henkel and in Loctite, the companies understand that their success and the success of their customers are inseparable. In order to help customers succeed, the companies will continue to: develop products that meet their performance requirements and those of their customers; give the best technical support in the industry; strive to meet future market demands for innovative materials; invest in research and development to produce tomorrow's products; employ highly-trained and skilled personnel who sincerely care about customers' success; and deliver consistent quality in every product the companies produce. By keeping one foot in the lab and one foot in the marketplace, companies must continue to provide faster solutions and high-performance products, design-to-assembly technology, and fast, affordable, dependable systems for the dispensing and curing of adhesives, sealants, coatings and all the other products that Henkel and Loctite offers to the world. Both will continue to support customers with a service program that is unmatched by others in the industry. Finally but not the least, the most attractive factor to keep an eye in this company is given to the fact of the process of finding out the strengths and weaknesses, and advantages / disadvantages in both companies, this by means of learning how Henkel and Loctite operates and merge all together. Based on basic observation and finding out if the management has the characteristics of implementing what is being practiced in most parts and by most companies (Transnationals) in the world. In terms of how processes of improvements, selection, quality, capacity, layout, measurement methods, etc. are being

implemented or not in the company. The right approaches are being implemented at the corporate level; at least in the United States and in Dusseldorf. (Where the largest markets are) The company practices most of the rules to keep the company gaining a competitive advantage. However, to distant places the philosophy is taking a slower time. Channels of information are starting to open. There is a clear understanding that Henkel KGaA is not structured in the same manner that Loctite is. Furthermore, It could be said that even both companies pursue the same objectives, both companies do apply the rules in the different manner. But in the other hand, they are slowly learning from each other. Most importantly, assuming that when all the people have a clear vision of the rules of the game. Growth by acquisitions will remain a key element in today's world globalization process, and as a matter of a fact, in order to manage a successfully a global company, leaders & managers must understand all the aspects that are associated with a company (internal/external factors). Companies should worry about business; *both companies must cooperate to obtain the best results on behalf of the stockholders*. Developing a future focus in an organization can mean different things to different people. To some, it might mean looking beyond the next quarter's results; to others it implies thinking of long term trends in the world around us; to some it may mean seeking ways to change the rules of competition in their industry. Whatever the individual meaning, it implies creating in the organization a culture which is forward thinking, is outward rather than inward looking, and is willing to accept change. Senior management must set the tone to create a forward thinking organization. It can do so by structuring processes which regularly expose people to such ideas, by communicating, by being receptive to outside points of view and by ensuring the accountabilities it enforces do not only have short term inward look and feel. It must go through the process and maintain a clear always a clear focus.

In my personal opinion, I recommend that as a leader you need to help your employees, guide them and lead them demonstrating awareness of their feelings and reassuring them changes will not devalue past contributions. In most M&As, the fact of uncertainty will remain constant in the future. Companies must be aware and keep in mind that The Basic Principles Strategy Management and The Basic Principles of Leadership Concepts will show you that, if you want to be successful in any endeavor. If you apply them, they should be successful in your implementation of any kind, by opening channels of communication, indicate what is happening to personnel, explain why it did occurred, ask questions, invite people to meetings, be simple and transparent, create new things to innovated, involve people in decisions, create policies of transition, and most importantly create vision of future.

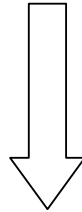
Henkel & Loctite **LOCTITE** A  Company

(See Attachment XII)



# Henkel Adhesives

## Engineering Adhesives



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Plantilla: C:\Documents and Settings\AGENDA\Datos de  
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Título: UNIVERSIDAD GABRIELA MISTRAL  
Asunto:  
Autor: BERNARDO JAVALQUINTO  
Palabras clave:  
Comentarios:  
Fecha de creación: 12/07/2005 12:36  
Cambio número: 5  
Guardado el: 12/07/2005 12:48  
Guardado por: Bernardo Javalquinto  
Tiempo de edición: 14 minutos  
Impreso el: 26/02/2008 11:12  
Última impresión completa  
Número de páginas: 49  
Número de palabras: 11.614 (aprox.)  
Número de caracteres:66.201 (aprox.)