M&A Governance Case

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Jacques Ferrier, Chairman of the Board of M-Tec International, is concerned that the aftermath of a recent M-Tec acquisition is threatening to tear his board apart and cause considerable damage to the company.

1 M-Tec International

M-Tec is a high-tech computer company based in Geneva, Switzerland, with a post-acquisition turnover of CHF 320 million, 650 employees, and a 2002 listing on the Swiss stock exchange. The appointment of a new chairman (Ferrier) and CEO (Suter) in quick succession in 1998 proved highly beneficial to the company, and despite the tough market conditions prevailing in 2002, M-Tec shares have traded at values consistently higher than the listing price. The recent acquisition of a rival business of equal size with highly complementary products and markets resulted in an additional, positive movement in the share price.

See Martin Hilb: “Corporate Governance,” 5th Edition, Springer Heidelberg/New York 2016, p. 68–71.

Fig. 1 Current situation

2 The Conflict (see Fig. 1)

Despite the positive performance, however, a major challenge has arisen at the board level. The recent acquisition caused a division of the board into two camps. The chairman, the CEO, and the CFO supported the acquisition. They acted on the advice of a lawyer specialized in business law who studied the acquisition in some detail and who indicated that the acquisition could bring positive value for M-Tec.

Three directors opposed the acquisition based on their conviction that the costs of integrating two companies are frequently underestimated and that the purchase price was therefore too high. All three directors opposing the acquisition were important shareholders in the company.

In order to make the acquisition decision under intense time pressure, the seventh director—himself a pioneering entrepreneur—received a call while on a trip in the United States. He supported the acquisition based on the threat of losing the opportunity to another rival company.

After the split vote, a serious tension became apparent between the two groups of directors. In every meeting, the CEO and board members supporting the acquisition

were challenged with questions about the decision, and they felt the attacks to be unjustified.

One board member opposed to the acquisition was particularly critical, and his comments appeared to provoke emotional reactions that threatened the board's ability to function in the best interests of the company.

3 The Leadership

Jacques Ferrier (65) has an impressive track record as a pioneering entrepreneur. He began his career as an apprentice in a bank and obtained his A levels and then a degree in economics from the University of Neuenburg, Switzerland. He held various sales, marketing, and management positions in an international commercial enterprise with its head office in Lausanne and branches in Rio and New York, and then, at the age of 35, he decided to open his own logistics company. Within 20 years, he succeeded in building up a concern with an annual turnover of CHF 250 million and 480 employees in 8 companies in 8 different countries.

As his two daughters took no interest in the company, he sold his concern to a big German group on good terms in 1998. That same year he took up the position of Chairman of the Board of Directors at Banque Regionale Vaudoise (BRV) in Lausanne and became a member of the board of directors at M-Tec International.

During the first board meetings at M-Tec International, Ferrier was exposed to the unprofessional leadership by Chairperson and CEO, Jean Marmier. When Marmier was dismissed by the three families owning the greater part of M-Tec International, Ferrier was asked to take over his position.

Ferrier undertook two major tasks in his first months as chairman and CEO. He appointed an American consulting firm to do a comprehensive analysis of the company. The results of the consulting analysis were sobering. He also asked an executive search firm from Geneva to find a new CEO. His search led him to Dr. Marc Suter within just 3 months. The company was now back on track again.

Suter graduated with a doctorate in informatics from the EPFL in Lausanne and an MBA from the IMD in Lausanne. After his graduation, he established a successful career with an American producer of computer hardware with offices in Zurich, New York, and Tokyo and finally became director for Central Europe. As part of the executive search process, Suter was given the opportunity to study the consulting report into the state of M-Tec. He was fascinated by the results and convinced the search consultants that he would be able to effect fundamental changes in M-Tec. In fact, over a period of 3 years, and in cooperation with Ferrier, Suter turned the company into a successful high-tech business.

4 Problem Analysis

Ferrier's concern about the viability of the board has led him to contact you for advice on how the conflict should be managed. He has assured you access to all the board members. Through preliminary discussions with both board members and top

managers, the following illustration of relationships among the company leaders has been generated.

1. What are the main challenges facing the board?
2. What would you recommend that the Chairman of the Board propose in the next annual general meeting?

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