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Case Study:
The Merger of Alcatel and Lucent, 2006-2016

Strategy, Risk Oversight, Board Dynamics, Board/CEO, Crisis Management

The Case in Summary

The merger of Alcatel and Lucent is one of the worst deals of the last 20 years. At the time it was approved by the Alcatel board, in early 2006, it received unanimous support from the markets, and was dubbed the "deal of the century" by the French press.

The deal was concluded in record time (6 weeks), with limited due diligence, and questionable reassessment of the technology and competitive landscape since a failed deal with three year before.

Despite a sharp divergence of share prices between agreement and closing, the "merger of equals" was never renegotiated before closing. The unraveling came quickly thereafter.

Despite attempts to salvage the merger in the following 10 years, Alcatel-Lucent continued spiraling down, and ended-up being bought by its rival Nokia in a € 15 bn acquisition in January 2016.

Governance Significance of the Case

This case raises interesting questions of:

- Strategy and the strategy process
- Risk oversight (or lack thereof) by a board
- Composition of a board
- Relationship with a dominant CEO
- Biases in decision-making due to past history
- Role of the markets and shareholders for listed companies
- "Hurbis" and courage (or lack thereof)

One of the Worst Mergers of all Times

ALCATEL + Lucent Technologies

- Lower revenue than each constituent revenue prior to merger
- Market cap divided by 10
- On the brink of bankruptcy in 1Q13
- "Penny –stock" – less than € 1
- Huge market-share loss in mobile

= Alcatel·Lucent

The Alcatel Board

MEMBERS OF THE BOARD

Serge Tchuruk
Chairman and Chief Executive Officer

Daniel Bernard
Independent Director

Philippe Bissara
Independent Director
Honorary General Representative of the Association Nationale des Sociétés par Actions

W. Frank Blount
Independent Director
Chairman and Chief Executive of TTS Management Corp.

Jozef Cornu
Director

Jean-Pierre Halbron
Director

David Johnston
Independent Director
President of the University of Waterloo (Canada)

Daniel Lebègue
Independent Director
President of the Institut Français des Administrateurs (IFA)

Pierre-Louis Lions
Independent Director
Professor of the Collège de France

Thierry de Loppinot
Director
Legal Counsel at Alcatel head office

Peter Mihatsch
Independent Director
Chairman of the Supervisory Board of Giesecke und Devrient (Germany)

Bruno Vaillant
Director
Engineer at Alcatel Space

Marc Viénot
Independent Director
Honorary Chairman and Director of Société Générale

Pascal Durand-Barthez
Secretary of the Board

The February 15, 2006 Board: Background

. Alcatel embarks on "telecom only "strategy in 1995 under new Chairman & CEO Serge Tchuruk

. Internet bubble pushes Alcatel share price to over € 100 per share - market cap of over € 100 bn

. Alcatel fares relatively better than most during the Internet bubble implosion – is it the new Cisco ?

. "Merger-of-equals" discussions with Lucent fail in May 2001- the "American dream" evaporates

. Lucent continues to struggle in the aftermath under Pat Russo, who proposes to reopen discussion in January 2006

The February 15, 2006 Board: The Strategy Questions

. Consolidation of telecom operators as a result of the Internet bubble implosion ?

. Impact of Internet technologies on traditional telecom technologies (CDMA, GSM, etc. v IP-based voice and data communication) ?

. Competitive landscape: the traditional telecom equipment providers or the entirety of the Internet equipment word?

. Alcatel's true strengths and weaknesses ?

. Personalities and corporate cultures involved ?

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The February 15, 2006 Board: The Risk Assessment (or lack thereof)

. What technologies will win ?

. What clients ?

. What business models ?

. What cultural/people issues ?

. What competitors ?

. What true strengths and weaknesses – pre and post merger ?

. What pre and post-merger plan ?

. What other risks ?

One of the Quickest Deals .....Ever !

. January 2006: Russo arrives in Paris to propose reopening the "merger-of-equals" discussions

. February 15: Alcatel board approved principle of merger

. March 8: Board approves terms and conditions

. March 16: Final agreement on parity and other points

. March 24: Press release forced by press/marker rumours

. April 2: Deal announced

. September 2006: AGM approves the merger

From the "Deal of the Century" to ...."One of the Worst Deals of the Decade"

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The Unravelling

. As early as end 2007: share price had tanked, internal disagreements were public knowledge, clients were complaining, etc.

. July 2008: Tchuruk and Russo are sacked, replaced by Philippe Camus and Ben Vervaayen (ex-Lucent, ex-BT)

. ALU survives only through asset sales, never generating positive cash

. 2H2012: ALU narrowly avoids bankruptcy by pledging all of its assets including patents

. January 2013: Vervaayen replaced by Michel Combes (ex-Vodafone)

. June 2013: "Shift Plan" announced, followed by a capital increase in November 2013 - gradual recovery and back to "normal"

. Fundamental issues of ALU not addresses despite Shift Plan

. April 15, 2015: Nokia announced outright acquisition of ALU for € 15.6 bn.

The Role of the Board

- Was the board's composition a factor in the decision ?
- Did the failed deal of 2003 play a role ?
- What this a case of a board dominated by its CEO ?
- Was the strategy wrong ? Or was the execution wrong ?
- Did the Board conduct a proper assessment of the risks?
- What could (and should) have mitigated the risks of the merger ?
- Should the board have renegotiated the deal before the closing ?
- Was the decision to merge with Lucent right or wrong ?

The term “governance” comes from the classical Greek “kubernetes”, the art of steering a ship. Governance, like sailing, is all about team work, effective communication, setting direction and strict monitoring, in ever changing conditions.

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