
Subject Index

- Acquisitions: absorption by acquiring company, 193–94; determinants of success or failure, 224; differences in pharmaceutical, 288, 298–99; importance in detail of, 235; measuring success or failure, 228–29
- Acquisition strategy: Cooper criteria for potential, 191–92; Cooper's pre-Cameron, 195–97; criteria for, 203; failure of Cooper's, 213; Premark, 224; understanding of target company, 224, 232, 233, 235
- Airline industry: absence of 1990s mergers, 282; labor relations issues, 241; merger activity (1975–1994), 246–47; mergers other than USAir, 273–77; problems after mergers, 247–48; regulation under Railway Labor Act, 241, 247. *See also* Piedmont Aviation; PSA; USAir
- American Home Products–American Cyanamid merger, 304
- Antitrust issues: related to divestiture of intangible assets, 319n30
- AtlantiCare: costs per adjusted admission, 37–38, 49; merger creating, 27t, 33–34
- Auto industry: effect of globalization, 54; effect on tire industry of globalization, 83–85. *See also* Tire industry
- Bank consolidation: case studies, 115–56, 162–70; cross-country comparison of, 94–96; integrating case and conventional, 176–77; measuring gains from, 163–69; microeconomic analyses of, 108–15; motives for, 163; postmerger performance, 110–14
- Banking system, U.S.: banks in Chicago acquired by foreign banks, 94; comparison of banks in Illinois and North Carolina, 94–95; competition linked to consolidation in, 96–100, 104–8; consolidation, 93, 97; constraints on diversification, 94; deregulation in, 97–108; effect of global competition, 98; effect of state-level regulation on, 94; effects of deregulation on, 101–8; foreign bank entry into (1980s), 99, 103–4; legislation related to branching across states, 97–98, 105; mergers and acquisitions (1979–1994), 96–97; state-level branching laws, 97
- Beecham-SmithKline merger, 300
- Biotech firms: competition for pharmaceutical firms, 294; strategic alliances of pharmaceutical firms with, 296
- Boston Medical Center, 27t, 31–32
- Burroughs Wellcome: history and success of, 306–9. *See also* Glaxo; Glaxo-Wellcome
- Cameron Iron Works: postacquisition market value, 208–10; preacquisition operating performance, 206–7; pre- and postacquisition operating performance, 210–12. *See also* Cooper Cameron Corporation; Cooper Industries

- CareGroup hospitals merger, 27t, 30–31
- Columbia/HCA–MetroWest, 27t, 32–33
- Comerica-Manufacturers bank merger, 139t, 151
- Cooper Cameron Corporation: compensation and incentive system, 204–6, 236; components of, 199; initial market value at divestiture, 208; postdivestiture organization, 204; postdivestiture stock performance, 199–200, 230. *See also* Cooperization
- Cooper Industries: acquisition strategy, 189, 191–93; centralized structure, 201, 212; compensation and incentive system, 204–6; divests Cooper Cameron (1995), 199, 230; evaluation of acquisition of Cameron, 206–210; failure of Cameron acquisition, 232, 234–37; Gardner-Denver and Crouse-Hinds acquisitions, 192–93; history of profitability and size (1960–1995), 189–90; lacking understanding of Cameron's business, 203–4; long-term stock performance, 195–97; preoccupation with acquisition and divestiture transactions, 202–3; stock market performance after Cameron acquisition, 212. *See also* Cooper Cameron Corporation; Cooperization
- Cooperization: accounting and control systems, 195; described, 193–94; failure in integration of Cameron, 199–200, 213, 224–25; internal control process, 201–2; manufacturing improvement, 194–95; pre-Cameron success of, 195–97
- Coordination: of hospitals on medical treatment, 11; nonmerger, 282
- Data sources: for analysis of merger and acquisition value creation and destruction, 184–87; analysis of U.S. tire industry, 70–71; BLS Drug Producer Price Index, 293–94; Compustat firm-level, 60, 79; National Hospital Ambulatory Medical Care Survey, 47
- Deregulation: effect on airline industry performance, 243–46; in U.S. financial services, 97–101
- Diagnosis-related groups (DRGs): impact on drug firms, 292
- Diversification: away from tire manufacture of U.S. producers, 79–80; BFGoodrich/Uniroyal into tire production, 56; constraints on bank, 94; effect of, 236; as part of Cooper acquisition strategy, 191–92
- Drug utilization reviews (DURs): impact on drug firms, 292
- EBITDA (earnings before interest, taxes, depreciation, and amortization): Cooper Cameron compensation tied to, 206
- Event studies: of bank mergers, 164–65; as source of merger and acquisition evidence, 182–84
- Federal Aviation Act (1958), 251–52
- Federal Aviation Administration (FAA): regulation of USAir-Piedmont integration, 253–54
- Federal Trade Commission (FTC): role in divestiture of assets, 319n30
- Financial services sector: client-based, 101–8; deregulation in, 97–101; growth of nonbank financial institutions, 99–100; increasing competition (1980s–1990s), 97–98. *See also* Banking system, U.S.
- Firestone: investment decisions (1970–1990), 81–82; opening of new plants (1960s), 60
- Firststar Bank acquisition, 135–36t, 148–49
- FirstBank-Boulevard merger, 117–22, 146–47
- First Chicago–Lake Shore merger, 137–38t, 149–50
- Florida Tile (Sikes Corporation): business before being acquired, 213–14; post-merger performance, 219–20; puts itself up for sale, 214
- Glaxo: acquisition of Affymax, 308, 317–18; acquisition of Burroughs Wellcome, 288–89; history and success of firm, 306–8. *See also* Burroughs Wellcome; GlaxoWellcome
- GlaxoWellcome: asset restructuring, 318–19; creation of value, 289–90; details of merger, 309–10; genome research joint venture, 318; reduced research costs, 315–18; sales after acquisition of, 289; sources of cost savings, 316–18; sources of value creation, 310
- Goodyear: investment decisions (1970–

- 1990), 81–83; opening of new plants (1960s), 60
- Harris-Suburban bank merger, 116–21, 130–33, 144–46
- Hatch Act (1984): effect on price of generic drugs, 291–92
- Hay system, 204–6
- Health insurance: changes in, 12; differences of managed care from traditional, 14, 16, 40–41, 47–48. *See also* Health maintenance organizations (HMOs); Managed care
- Health maintenance organizations (HMOs): impact on drug firms, 292; patients' hospital admissions, 47–48. *See also* Managed care
- Hospital consolidation: for closure, 10–11, 19–20; predicted effect on medical costs, 41. *See also* Mergers, hospital
- Hospital consolidation, Massachusetts: closures and mergers (1980–1996), 21–25; factors leading to, 3–5, 9–11. *See also* Hospitals, acute care
- Hospitals: administrative mergers, 11–12; admissions of HMO patients, 47–48; admission trends in Massachusetts, 18; coordination on medical treatment, 11; decline in use of, 47–50; effect of managed care on use of, 47–48; effect of technological innovation on use of, 48–49; Medicare and Medicaid payments to, 16, 42; productivity measurement, 49; space utilization, 24, 26t
- Hospitals, acute care: closure of, 11; inpatient days in (1980–1994), 17–18; number in Massachusetts (1980–1994), 14–16, 19; number of beds in (1980–1994), 20, 24–25; trends in inpatient days, 16–19
- Incentives: in Cameron and Florida Tile, 204–6, 236; role in success of acquisition, 225, 232
- Integration: in airline industry, 4–5, 240–41, 273, 277, 279; of Cameron Iron Works, 199–200, 213, 224–25; Glaxo-Wellcome move toward, 320–21; post-merger problems and issues, 319–21; regulation of airline, 253–54; of USAir and Piedmont workforces, 240, 247–48; vertical pharmaceutical firms', 288
- Kodak-Sterling merger, 299–300
- Labor relations: issues in airline mergers, 241, 279; labor protective provisions in USAir-Piedmont merger, 252; pilot seniority integration, 247–48; tire industry, 61; in USAir-Piedmont merger, 253–54, 282; USAir's postmerger, 268–70
- Lilly-PCS merger, 299, 308
- Managed care: difference from traditional insurance, 14, 16, 40–41, 47–48; expansion in Massachusetts and in United States, 16–17; penetration by, 20, 48; role in medical care consolidation, 9–10, 47–48
- Medical care consolidation: for economies of scale, 10, 20–21; for network creation, 10, 21; regionalization, 10; role of managed care in, 9–10, 47–48; terminology of, 11–12
- Medical services: changes in delivery of, 12, 14–16; effect of reduced inpatient demand on, 16–21, 42; Medicare-Medicaid payments to providers, 42–43; provider networks, 10, 21
- Mercantile Bank–United Postal and Roosevelt–Farm & Home Bank merger, 140–41t, 151, 156
- Merck-Medco merger, 299, 305, 308
- Mergers: airline industry (1975–1994), 246–47; airline labor relations issues, 241; banking industry, 4; Goodrich-Uniroyal, 84; measuring success or failure, 228–29; measuring value creation in pharmaceutical firms, 297; structure of USAir-Piedmont, 250–51; vertical mergers in drug industry, 295–96
- Mergers, hospital: additional empirical evidence, 45–46; of Boston area, 27–36; case studies of Massachusetts, 25–36; challenges to proposed, 50; to create networks, 44–45; different levels of, 11, 20–21; to downsize or close hospitals, 43–44; for economies of scale, 44; indicators of success of, 36–40; in Massachusetts (1980–1996), 21–25; motivations for, 42–43; profitability of, 49; as substitute for closing, 19; success in Massachusetts, 36–40; suggested additional research, 43–46

- Mergers and acquisitions: evidence from event and performance studies, 2–3; measuring success or failure of, 228–31, 234–37; sources of evidence about, 182–84; U.S. banks (1982–1997), 168t; U.S. banks (1990–1997), 153–55t; U.S. tire industry, 51; of USAir (1980s), 246
- MetroWest: costs per adjusted admission, 37–38, 49; merger creating, 27t, 32–33
- National Ambulatory Medical Care Survey, 48n3
- NationsBank-MNC merger, 134t, 146–48
- Partners Health Care, 25, 27–30
- Pathways hospital network, Boston area, 38–40
- Performance of merged firms. *See* Stock market; Stock price; Value
- Performance studies: of bank mergers, 163–64; simulated merged firm (USAir, PSA, Piedmont), 263; as sources of merger and acquisition evidence, 182–84
- Pharmaceutical firms: competition from biotech companies, 294, 296; concentrated ownership structure, 304–5; drug discovery and development costs (1985–1996), 293–95; horizontal acquisitions, 5, 288; majority of mergers (1994–1996), 297; market share before and after mergers (1995), 300, 303–4; postmerger creation of value, 289; pre- and postmerger cost structure, 313–15; profits and growth (1970s–1980s), 291–92; purchase of PBMs, 288; returns to firms targeted for merger, 300, 303–4; vertical integration, 288; ways to maintain profitability, 288. *See also* Biotech firms
- Pharmaceutical industry: active merger market, 304–6; BLS Drug Producer Price Index, 293–94; characteristics of, 291; dynamic nature of, 297
- Pharmaceuticals: effect of generic drug industry on, 292, 307; patent expiration (1990s), 294
- Pharmacy benefit managers (PBMs): impact on drug firm profitability, 292; increased sales of pharmaceuticals, 292; motivations for purchase, 288n1; purchase by pharmaceutical firms, 288
- Piedmont Aviation: background information, 243; comparison of firm data before USAir-Piedmont merger, 254–57; cost structure before acquisition by USAir, 246; integration into USAir, 252–54; performance (1979–1986), 243–46; as regional airline, 243–46; structure of merger with USAir, 250–51
- Preferred provider organizations (PPOs), 16
- Premark: acquisition motivation and strategy, 214–15; attention to divisions other than Florida Tile, 220–21, 224, 230; business segments before Florida Tile acquisition, 213; failure of Florida Tile acquisition, 232, 234–37; Florida Tile performance as division of, 219–20; long-term stock performance (1986–1995), 223–24; operating performance of Premark-Florida Tile (1986–1994), 221–23; postmerger management style, 218; stock market response to merger with Florida Tile, 217; Tupperware spin-off, 220–21
- Premiums, takeover, 228–29
- Profitability: simulated merged firm (USAir, PSA, Piedmont), 261–63; ways of pharmaceutical firms to maintain, 288
- PSA: comparison of firm data before USAir-Piedmont merger, 254–57; USAir acquisition of (1986), 249
- Railway Labor Act, 241, 247
- Regulation: of drugs under Hatch Act, 291–92
- Regulation: of airlines under Railway Labor Act, 241, 247; DOT airline acquisition, 251–54; under Federal Aviation Administration, 253–54
- Research: bias in and value of clinical, 186; GlaxoWellcome, 315–18; selection bias in case-based, 186; suggested addition, 43–46, 90–92
- Riegle-Neal Interstate Banking and Branching Efficiency Act, 97
- Selection bias: case-based, and clinical research, 186, 229–30
- Stock market: assessment of pharmaceutical industry (1991), 295; response after acquisition, 231; response to bank consolidation, 109–10, 114, 142–43t, 162, 164; response to Cooper acquisition of

- Cameron, 197–98, 212–13, 229; response to divestiture of Cooper Cameron, 199–200; response to pharmaceutical deals (1985–1996), 297–300; response to Premark–Florida Tile merger, 217, 229; response to USAir acquisition of Piedmont and PSA, 258–61, 283; used to measure value of acquisition, 230–31
- Stock price: of pharmaceutical firms (1980s), 292, 295f; Premark's long-term performance, 223–24; USAir (1978–1995), 239–40; USAir, Piedmont, and PSA premerger performance, 254–57; of USAir and Piedmont (1979–1986), 240f, 244–45
- Tire industry: acquisitions by firms in, 4; change of demand in, 52–53; distribution channels, 58–60; foreign producers of radials, 53–54; history of, 55–57; hold-up problem, 65; introduction of balloon and radial tires, 56; manufacture of radial tires, 61–62; mergers and acquisition in U.S., 51, 67; original equipment manufacturers, 58; ownership of foreign producers, 54–55; suggestions for additional research, 90–92; switch to radials in United States, 62–63, 85; U.S. manufacturers with international operations, 61; wages in, 61; world market share (1970), 57
- Tire industry, U.S.: causes of change to foreign ownership, 79–85; corporate control events (1966–1993), 67–69; decline in U.S. ownership in, 52–53; delayed introduction of radial tires, 53–55, 61–67; diversification from tire manufacture, 79–80; effect of foreign acquisitions on plant closure, 75–79; effect of ownership on productivity, 72–75; end of U.S. ownership in, 79–85; productivity as reason for acquisition by foreign company, 67–75; R&D investment (1970–1990), 81–82; sale of foreign operations (1970s), 84; structure of, 66–67; world market share, 51–52, 56–58
- Tire market: brand names in replacement, 59–60; delay of U.S. adoption of radial technology, 61–67; manufacturers' share in replacement, 58–59; manufacturers' share of U.S. original equipment (1968–1990), 58–59; profits in replacement, 59; requirements for original equipment, 58
- Tires, bias ply and belted bias ply: manufacture of, 60–61; switch to radials from (1960s), 63
- Tires, radial: delayed introduction in United States, 63–66; diffusion in United States, 62–63; invention of, 61; penetration of original equipment market (1976), 63–64; special characteristics of, 63–65
- United Rubber Workers (URW), 61
- USAir: acquisition and integration of PSA, 249–50; acquisition of Piedmont Aviation, 239, 242; background information, 242–43; comparison of firm data before USAir-Piedmont merger, 254–57; cost structure before acquiring Piedmont, 246; integration of Piedmont into, 252–54; performance (1979–1986), 243–46; Piedmont as target of, 249–50; postmerger losses, 283; postmerger performance, 261; as potential takeover target, 248; as regional airline, 243–46; structure of merger with Piedmont, 250–51
- USAir-Piedmont-PSA merger: factors influencing impact of, 279–80
- U.S. Department of Transportation: airline acquisition regulation by, 251–54
- Value: creation by GlaxoWellcome, 289–90, 310; factors in destruction of firm's, 235–37; measuring creation of, 289, 297; of USAir, post-Piedmont acquisition, 240; using stock market to measure, 230–31
- Williams Act (1968), 252
- Workforce: integration in airline industry, 4–5, 240–41, 273, 277, 279; integration of pilot seniority, 247–48; integration of USAir-Piedmont, 253–54; labor costs after USAir-Piedmont merger, 265, 268–71, 280–81, 283–85; labor protective provisions in airline merger, 252; type and distribution of hospital employees, 12–13