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Motives, expectations and results of the 2000–2009 M&A privatization processes of the industrial activity of Israeli kibbutzim

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ABSTRACT

In the 20th century, almost all of the 350 kibbutzim's industrial plants were solely owned by the kibbutzim, which were managed like family communal cooperatives. In 2011, almost all of these cooperative-like firms were privatized and started to employ a public type of management. More than 50% of them went public by IPOs or underwent an M&A process. Questioning those who were involved in the above process as well as the details of financial reports before and after the IPO and M&A events, reveal that in contrast to the expectations and incentives, the IPOs and the M&As harmed the profitability of the acquired industrial firms compared with the industrial firms that remained fully owned by the communal cooperatives of the kibbutzim.

1. Introduction

Kibbutzim during the past two decades, like cooperatives worldwide, have undergone structural changes to adjust themselves to an external economic environment that is characterized by increasing competition and globalization. Similar to the changes in many cooperatives around the world (Chaddad & Cook, 2004; Royer Jeffrey, 1999), kibbutzim shifted from centralized control of all of their business units toward a decentralized model of management. The above structural changes were accelerated due to their serious financial crisis in the late 1980s, in which most of the kibbutzim collapsed financially and many industrial firms that were owned by the kibbutzim either closed or postponed their investment plans access to credit markets disappeared after the crisis. Some industrial firms that were established and owned by kibbutzim developed unique know (For example firms that manufacture irrigations systems and food processing) became very successful by utilizing their manufacturing knowhow abroad through erecting plants in the target countries.

In order to overcome financial obstacles in the credit market, the kibbutzim started to raise capital through new methods that were not ideologically common before the crisis. These methods included initial public offerings (IPOs) on the Tel Aviv Stock Exchange (TASE) and mergers and acquisitions (M&A) with the help of private equity firms. In order to better understand the roots and the implications as well as the results of this new financial trend, one has to at least understand the basic features of the kibbutzim.

The kibbutz was described by as a "whole cooperative" Buber (1950), uniting production and consumption within the same cooperative. Since the 1990s, kibbutzim have been transformed from the collective model into the market model, with salaries for the members of the kibbutz (Palgi, 2002). Kibbutzim that underwent these changes are of a new type of kibbutz that is called a "renewed kibbutz" (Russel, Hanneman, & Getz 2011). So far, the privatization has been primarily related to salaries, and the business units remained collectively owned by the kibbutz members (Russel et al., 2011). Privatized kibbutzim are managed by standards that are determined by the competitive environment (Levi, 2001), where the general assemblies of the kibbutzim intervene only in cases of significant crucial decisions.[1]

The changes in the managerial patterns of the industrial firms that are owned by kibbutzim included significant changes in kibbutz life. The total guarantee of the kibbutz for the common needs of its members has been reduced to a partial guarantee, and the

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[1] Formally and legally, significant decisions, such as buying or selling assets of the kibbutz, must be confirmed by the general assembly of the kibbutz.

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level of communal cohesion has decreased.[2] Similar to the findings of Fulton (1995) in Canada, Palgi (2002) also notes that the members of the kibbutzim have scarified the core values of cooperation and have become more individualistic. The privatization process also occurred along with demographic changes. The founding generation passed away, and the second generation grew old, with the third generation reaching midlife. The fourth generation has started to manage the kibbutzim. In 2010, most of the labor inside the kibbutzim and their industrial firms was performed by nonmembers, while more than one-third of kibbutz members worked outside of their kibbutzim (Russel et al., 2011).

The goal of this paper is to analyze the motivations, expectations and results of an important element along the transitions process of the kibbutzim, the M&A activity of the industrial firms of the kibbutzim in the years 2000–2009. That activity is an important element of the past two-decade transition process of the kibbutzim from "Whole Cooperative" toward "productive cooperative". The M&A process is considered to be an important tool for adapting modern operational, managerial and financial tools that are supposed to enable survival in the highly competitive global environment.

Because this paper combines two separate academic fields, M&A and the transition of cooperatives, we provide preliminaries of both fields. The next section presents the main characteristics of the transition process towards the privatization of the kibbutzim and the theoretical stages in the evolution of the kibbutzim from "Whole Cooperatives" toward partially privatized cooperatives. The third section presents the background related to the M&A activity.

The fourth section presents the methodologies that are applied in the paper. The fifth section analyzes the motivation and expectations from M&A. The sixth section presents the financial results of the M&A process of the Kibbutzim's industrial firms. Finally, the last section concludes the paper.

2. Main characteristics of kibbutzim and the stages of their transition process toward privatization

The first industrial activities of the kibbutzim started in the early 1930s. However, up to the end of the 1960s, kibbutzim were mainly agricultural cooperatives with members that also adopted a full communal living system. The massive industrialization of the kibbutzim occurred in the 1960s and 1970s. During this period, the business environment conditions changed. Government subsidies for agriculture were reduced, and domestic production was exposed to competing imports. In the mid-1990s, 94% of the kibbutzim contained at least one industrial firm. Of these kibbutzim, 43% contained more than one industrial firm, and almost all of the industrial firms were solely owned by the kibbutz.[3]

The majority of the kibbutzim experienced financial collapse in the mid-1980s. Until that crisis, nearly all of the industrial developments of the kibbutzim were financed by bank credit that was backed by a mutual guarantee that was organized by a financial cooperative of all of the kibbutzim. This mutual guarantee practice collapsed due to the crisis. As a result, the establishment of new industrial enterprises almost came to an end, and many plants were either sold or closed due to losses. At the beginning of the 21st century, the trend of selling part or all of the holdings of the industrial business of the kibbutz was strengthened, and the number of industrial firms in the kibbutz cooperative sector continued to decrease dramatically. As a result of the above process, in 1983, there were 324 industrial firms owned by the kibbutzim, and in 2011, this number dropped to 233. Despite the decrease in the number of the industrial plants, their average size increased, and in 2011, approximately 70% of the revenue of the kibbutzim was from the industrial sector; this revenue is approximately 10% of the revenue of the Israeli industrial sector.

Due to the deep financial crises of the kibbutzim in the mid-1980s, the only option to finance growth and to provide liquidity was from external equity sources, such as initial public offerings (IPOs) and private or public external equity. Beginning in the mid-1990s, private equity firms and strategic partners began to acquire or merge with kibbutz industrial firms. During the period 2000–2010, there were approximately one-hundred M&A events in the kibbutz industrial sector, which was approximately one-third of the kibbutz industry firms.[4]

The IPOs of the kibbutzim industrial firms and the mergers with private partners required administrative and organizational changes in the kibbutz industrial firms and in the kibbutzim.

Prior to the above process, the kibbutz industrial firms were managed like a cooperation of family business, and the community was involved in the decision-making at all levels of the industrial firms. The cash-flow management of the industrial firms was part of the overall cash flow of the community; the majority of the managers and workers of the industrial firm were kibbutz members. In the early 1990s, the kibbutz industrial firms began to be separated financially and managerially from the kibbutz's community. Boards of directors were established, and external professional directors and CEOs were hired. The proportion of kibbutz members that served as directors, managers and workers in the industrial firm was reduced dramatically. The increase in the proportion of nonmember hired CEOs and other senior managers strengthened the transition from the democratic to hierarchical model of management. Shapira (2013) argues that many CEOs, even if they were kibbutz members, tended to manage the kibbutz industrial enterprise in a hierarchical model that fit capitalist enterprises rather than in a democratic model that fit the cooperative's principals.

The kibbutz industrial firms had to face three typical environments:

1. External business environment—characterized by globalization, competitiveness, lack of stability, uncertainty in the markets, reduced government support to local industry and exposure to competitive imports. Similar to family firms and cooperatives, the kibbutz industrial firms also employed the strategy of growth and survival by M&A (Chang & Mais, 2000; Richards & Manfedo, 2003; Feito-Ruiz & Menendez-Requejo, 2010).
2. Kibbutz's ownership and involvement—the conflict between the cooperative, strategic decisions that are made by the general assembly of the kibbutz versus the professional management of the industrial firms by the board of directors. In general, at least the strategic decisions of the industrial firms (and other business units) must be approved by the kibbutz general assembly. Some of the kibbutz members are also managers and directors of the kibbutz industrial firm, but most members have little knowledge about the needs of the industrial plant. In the past two decades, kibbutz intervention in the industrial firm has been reduced along with the change in most kibbutzim from an interrelationship of the community to one of an association (Cohen, 1983). In the kibbutz, as in multi-generational family firms (Drik, 1990), the third and fourth generations evaluate the results of their industrial firm in terms of classic economic measures, such as the

[2] However, the claim that the privatization of the kibbutz is the reason for selling a part or all of the holdings of its assets has no empirical support, as many of the kibbutzim that were not privatized used M&A to develop their industrial firms.

[3] Source: the Annual Review—Kibbutz Industries Association (KIA) 1994.

[4] Source: the Annual Review—Kibbutz Industries Association (KIA) 2010

profits dividends, returns and value, instead of in terms of non-economic outputs, such as developing the communal activity, as the founders expected from the industrial firm.

3. Internal environment—the increased proportion of external directors and managers who were not kibbutz members intensified the conflicts between those who adhered to the family type of the kibbutz industrial firm and the external board of directors who understood the needs of the modern competitive industrial firm.[5]

The deep and fast privatization process of the Israeli communal cooperative of the kibbutzim appears to be the fourth or fifth stage of Cook's (1995) five stages in the life cycle of cooperatives. The Cook model was built to explain the transition process of agricultural cooperatives in North America, but we believe that the model could also shed light on the transition process and the evolution of the kibbutzim over time. Cook's stages are as follows:

Stage one: producers established cooperatives to achieve control over the balance of supply and demand in the market because of low prices resulting from excess supply and/or to confront markets failures.[6]

Stage two: cooperatives that are founded to balance excess supply have little economic impact on the livelihoods of their members and are usually short lived. Cooperatives that are formed to confront market failures usually survive the infant stage and can generally market products or supply farm inputs at prices that are more favorable than investor owned firms (IOF).[7]

Stage three: cooperatives that survive stage two generally become successful in allaying the negative economic impacts of market failures. In reaction to the cooperative's activity in the market, competitors adjust their strategy, and the difference between the prices of the cooperative and its competitors decrease. At this stage, the cooperatives become increasingly complex in their organizational structure, the cost of transacting with the cooperative becomes more scrutinized by the members, and internal conflicts arise and include five problems, in particular: horizon, portfolio, control, free-rider and influence costs problems.[8]

Many kibbutzim reached stage three in the 1960s. In those years, the demand for agricultural products in the domestic market increased rapidly. Thus, to achieve an advantage of scale in the supply of inputs, industrial processing and marketing of agricultural products, the kibbutzim established eight regional cooperative enterprises. That activity vertically expanded the value chain of the agricultural activity, and it was similar to the activity of farmer's cooperatives in North America and Europe. Despite the importance of the regional cooperative, they are not investigated in the current study.[9]

Stage four: the decision makers within the cooperative become aware of the above competitive problems and of the benefits stemming from the cooperative. In the long term, the strategic options are narrowed to three options:

A Exit: there are two alternatives for this option: to liquidate or to restructure as an investor-oriented firm (IOF).

B Continue: cooperatives that choose this option have two generic alternatives; the first one is to seek external equity capital without changing the cooperative's basic rules.[10] The second one is to generate additional equity internally by its members by pursuing a strategy in which profits are shared proportionally to investments.

C Transition: conversion to a "new generation" cooperative, which is characterized by "value added" processing activities and a linkage to equity shares. The "new generation" cooperatives develop asset appreciation and a liquidity mechanism by forming publicly held subsidiaries, joint ventures with other cooperatives or with non-cooperative firms, or limited liability with various partners (Cook, 1995; Royer Jeffrey, 1999).

The strategic options chosen by the kibbutzim regarding their industrial enterprise were similar to those chosen by the agricultural cooperatives in North America: to liquidate their industrial enterprises or to continue and then construct subsidiaries managed as an IOF.

Stage five: the cooperative's leadership chooses between the above three strategic options (exit, continue or transition). Some kibbutzim chose to exit by liquidating their industrial enterprise; the others decide to continue, Approximately one-third changed their pattern of management to IOF and took on various partners,[11] and two-thirds of the industrial enterprises continue to be owned solely by a kibbutz.

The kibbutzim are already at stage five, and all of them have decided to continue, while those that needed additional financial support mainly used IPOs or M&As in which parts of their economic activities were acquired by external public and/or private investors. In 2010, 37% of the kibbutz industrial companies had external partners.

We believe that our ability to interview those who were involved in both sides of the M&A activity as well as our ability to obtain the financial data of the acquired industrial firms of the kibbutzim before and after the M&A process is a special opportunity and provides a unique study opportunity related to motives, expectations and the actual effectiveness of the M&A process of the communal cooperatives. The social, managerial and economical transition of the kibbutzim is an important lesson regarding the life cycle of cooperatives. This lesson can be at least partially used by planners of transitions of many other cooperatives in many other places in the future.

3. Trends and motives for M&As

The current global upward trend in M&As is driven by many factors, such as global competition, macroeconomic constraints, economies of scale, new market opportunities, adoption of modern technologies, synergy, risk diversification, incentive for survival in a distressed economy (Feito-Ruiz & Menendez-Requejo, 2010), market timing, agency motives and hubris, and response to industrial economic shocks (Hien, Kenneth & Qian, 2012). A theory of the ultimate causes of M&As does not exist (Richards & Manfedo, 2003).

The 2013 survey by Grant Thornton (Hughes, 2013) finds growth of 56% in cross-border M&As throughout the world during the period 2008–2013. The global economic crisis that began

[5] For a description of these conflicts, see: Harris and Raviv (1988), Drik (1990), Amihud, Lev, and Nickolas (1990), Stulz (1988), Chang and Mais (2000), Faccio and Masulis (2005), Steen and Welch (2006), Andres (2011), Colli (2011).

[6] In the case of the kibbutzim, stage 1 was different, as it was related also to communal ideological considerations as well as the pioneering Zionist activity.

[7] In the case of the kibbutzim at this stage, the kibbutzim generated benefits toward the foundation of Israel.

[8] In the case of these kibbutzim, this stage was also involved with the loss of subsidies and support of the Israeli government as their main pioneering mission was completed.

[9] It is worth studying the evolution of these regional agricultural cooperatives in the last few decades following the change in government policy to agriculture and change in core values and structural transition in the kibbutzim.

[10] This can be done by the cooperatives by constructing capital managed firm (CMF) subsidiaries together with the external investors.

[11] The option to generate additional equity internally by its members is impossible in the kibbutz.

in 2008 did not stop M&A activity, but rather changed its pattern from activity in the local economy to activity in geographically diverse markets through investments in secondary markets (Grave, Vardiabasisand, & Yavas, 2012).

Despite the above trend, there is ample empirical evidence that M&As tend to benefit the shareholders of the acquired firms and harm the shareholders of the acquiring firms (Andrade, Mitchell and Stafford, 2001; Dickerson, Gibson & Tsakalotos, 1997; Hien et al., 2012; Lubatkin, 1983; Meeks & Meeks, 1981; Ravenscraft & Scherer, 1987; Shinha, Kaushik and Chaudhary, 2010; Tuch & O'sullivan, 2007).

The above studies are based on market price reaction to the M&A event. However, this approach cannot be used to analyze the impact of M&As on private firms that were not traded in the market before or after the M&A. In addition, it is difficult to investigate the impact of the M&A on the private acquired target firms pre- and post-M&A because it is difficult to obtain performance data from privately acquired firms, which either cease to exist as a distinct firm following the M&A or become an entity of the acquiring firm (Touch and O'sullivan, 2007).

4. Data and methodology

This study empirically investigates the impact of seventy five M&As out of 100 M&As on a group of privately acquired industrial firms that were fully owned by the kibbutzim before the M&A, which represents a very unique communal cooperative form. In this study, we were able to obtain both the accounting reports of all of the private industrial firms of the kibbutzim, and we were also able to perform a survey among the major leaders of these seventy five M&As processes. The above data are used to analyze the motives and expectations as well as the economic results in the years 2000–2010 of the M&A processes in which the kibbutz industrial firms in Israel either went public or were partially purchased by private or public firms.

The motives and expectations were investigated by analyzing seventy of the one-hundred M&A events in the first decade of the 2000s. In each case, we interviewed the managers of the kibbutz or the industrial company who led the M&A process.

The impact of the M&A process on the acquired industrial kibbutz firms was measured by comparing the accounting performance measures of the group of the acquired industrial kibbutz firms to those of a control group of kibbutz industrial firms that had not been a part of any M&A process.

Two research methods were applied to examine the performance: the first examined the changes of the economic performance of the firm two years before the merger to the performance two years after the merger and compared them with the control group, which included firms without an external partner. The second method compared the economic measures during the years 2001-2009 of the research group with those of the control group.

5. Goals and expectations from adding an external partner to the kibbutz industrial firms

In the survey that is presented in this paper, we constructed a questionnaire that is based on the following theories and earlier findings.

Every M&A event involves exogenous and endogenous factors (Nguyen, Yung, & Sun, 2012). The exogenous factors are global competition, macroeconomic constraints, economic shocks, competitive size of the firm, new markets and changes in the existing markets and new opportunities (Hien et al., 2012). The endogenous motives for M&As are the adoption of modern technologies, synergy, diversification of activities, risk diversification, survival of firms in distress (Feito-Ruiz & Menendez-Requejo, 2010), agency motives and hubris (Hien et al., 2012). Richards and Manfedo (2003) presented the motives for M&A of cooperatives, and Andres (2011) indicates that raising capital for developing the business is also a motive for M&As of family firms.

To examine the expectations and goals, we collected data from 75 M&As of close to one-hundred cases; the majority of them (59%) were in the period 2006–2010.

We interviewed both the executives of the kibbutz and the industrial firm and the executives of the new external investor/partner. The interviewees were asked about the goals and expectations of the kibbutz, the board of directors in the industrial firm and the external investor-partner.

They were also asked about the importance of the goals and the extent to which they were achieved. In the early exploratory stage of the research, we found significant differences between the goals of the kibbutz, the board of directors and the external investor-partner.

Table 1 presents the goals that were set by the executive of the kibbutz and their perceived achievement of the goals. The most important of the goals of the kibbutzim was risk reduction by diversification. Of the interviewees, 58% believed that this goal is highly important. The importance given to risk reduction by diversification stems from the high proportion of kibbutz income from the industrial activity. In 31% of the kibbutzim, the income from the industrial plant is more than 75% of their total income. In 58% of the kibbutzim, it is more than 50%. The majority of the interviewees (74%) declared that the goal of risk reduction by diversification was achieved at a high level.

The second most important goal was equity finance for the development of the business (55%). The importance given to the second goal indicates the difficulty of financing growth either by debt or by internal undistributed profits. The kibbutzim debt crisis in the 1980s raised the awareness of the banks and the kibbutzim to the financial risks of leverage. Therefore, it is not surprising that the majority of the interviewees assessed this goal as a high priority and that 66% of them believed that this goal was largely achieved. The goal of ensuring the survival of the business by adding an external strategic or financial partner was given a great deal of importance by less than one-half of the kibbutzim leaders (47%). The majority of the interviewees (63%) believed that this goal had been largely achieved.

The goal of improving the business management by joining with an external partner was controversial; 41% deemed it of high importance, and 37% deemed it of low importance. Approximately one-half of the interviewees (52%) believed that this goal had been achieved.

The goal of ensuring future social security for the members of the kibbutzim was viewed as having great importance by only one-quarter of the interviewees (28%); the majority (66%) thought that this goal was of low importance.

The goal of creating job opportunities for the adults and young members of the kibbutzim was important because many of the kibbutz industries were founded in the 1960s and 1970s. However, it was considered to be unimportant by the majority of the interviewees (89%).

The statistics regarding the goals of the directors of the industrial firms and their perceived achievement are presented in Table 2.

The most important goals of the board were an increase in sales and an increase in profits (71% and 70%, respectively), but only 55% of the interviewees considered that the goal of sales growth had been achieved, and only 49% said that the goal of profit growth had been achieved. The disappointment in these areas is consistent with the economic findings that will be displayed in the next section. Similar to the kibbutz management, the board of directors also gave

Table 1
The goals of the kibbutz in adding an external partner and the level of their achievement (in percentages).

The question presented to the leaders of each kibbutz: What was the importance of the goals of adding an external partner, and by how much were these goals achieved?						
	The importance of the goal			The level of achievement of the goal		
	High	Medium	Low	High	Medium	Low
Risk reduction by diversification	58	17	25	74	16	10
Obtaining equity capital for growth and development	55	5	40	66	13	21
Survival reasons	47	19	34	63	20	17
Improving the managerial level	41	23	37	52	22	26
Increasing the value	36	20	44	59	18	23
Financing the actuarial deficit of the retirement pension funds of kibbutz members	28	6	66	69	15	26
Increasing the employment of kibbutz members in the industrial plant.	6	5	89	29	12	59
Attracting young members of the kibbutz to the industrial plant.	6	5	89	52	22	26

Table 2
The goals of the management of the industrial plant in adding an external partner and the level of their achievement (as percentages).

The question presented to the directors of the industrial firm: What was the importance of the goals of adding an external partner, and to what extent were these goals achieved?						
Strategic goals	The importance of the goal			The level of achievement of the goal		
	High	Medium	Low	High	Medium	Low
Increase sales	71	8	21	55	25	20
Increase profits	70	10	20	49	21	30
Financing development	65	5	30	71	8	24
Strategic partners who enable entrance into new markets	60	7	33	52	23	25
Higher market share	55	9	36	44	26	30
Improving branding and competitive edge	53	16	31	59	18	23
Diversifying the product line	34	15	51	46	32	22
Functional goals						
Improving managerial know-how and capabilities	40	16	44	51	28	21
marketing capabilities Improving	32	8	60	50	22	28
Cost saving	31	11	58	40	26	34
Improving the management of human resources	17	5	89	19	22	59
Production know-how	14	10	73	33	12	33
R&D know-how	6	5	81	31	11	58

high priority to the goal of raising capital for business growth and development (65% high importance, 30% low importance); of the interviewees, 71% considered that this goal was largely achieved.

The board places high priority to the strategic goals relating to marketing: sales growth (71% high importance), strategic partnerships that will enable entrance into new market segments (60% high importance), increasing market share (55% high importance), improving the firm's positioning in the business environment (53% high importance), and product diversification (34% high importance). The board of directors expected the merger to improve the positioning of the firm (59% achieved at a high level). The goal of increasing the market share was partly achieved (only 44% believed that it was achieved at a high level), although 55% believed that it was a very important goal.

In general, the importance of the functional goals was lower than that of the strategic goals: Increasing efficiency by merging functions (31%) and obtaining general management knowledge from the partner (40%) were similar to the importance level given by the kibbutz to the goal of improving the management of the firm (41% high importance).

The importance of obtaining information from the partner in various areas was as follows: marketing (31% very important), manufacturing (14% very important), human resources management (17% very important) and R&D (6% very important). In retrospect, the functional goals were achieved to a high level relative to their importance in the planning stage. In general, the level of achieving the functional goals was assessed as moderate or lower.

The statistics of the goals of the external partners as they were stated by the management of the kibbutz and their representatives in the management of the industrial firm are given in Table 3. The main results of this table are:

1. Strategic goals—The most important of these is the increase in sales (67% very important), the increase in profit (65% very important) and the merger with a strategic partner (51% very important). The majority of the leaders of the kibbutz believed that the partner's goal was not to take over a competitor by acquiring a part of the kibbutz holdings (88% low importance). The majority of the interviewees believed that the external partners were highly satisfied with the increase in sales and profits.
2. Marketing goals—These goals are believed to be of less importance for the external partners: increasing market share (42% high importance) and diversifying product portfolio (40% high importance). Although their importance was secondary at the merger planning stage, in retrospect, the interviewees determined that these goals were achieved to a high degree.
3. Financial goals—approximately one-half of the interviewees (49%) believed that the partner's goal to achieve high returns on his financial investment was very important; the degree to which the goal had been obtained is controversial.[12] The interviewees believed that the goal of improving the business and then floating the firm in the market or exiting with profit was very important for the external partner (41%). Only 35% of the interviewees considered that this goal was achieved to a high

[12] In the 1-to-5 ranking questionnaire, the average was 3.11 out of 5, with a standard deviation of 1.38.

Table 3
The goals of the external partners (as perceived by the kibbutz management and their representatives on the board) in their investment and the level of their achievement (as percentages).

The question: what was the importance of the goals of the external partner who purchased a part of the industrial firm of the kibbutz?						
	The importance of the goal			The level of achievement of the goal		
	High	Medium	Low	High	Medium	Low
Strategic goals						
Increase sales	67	7	26	64	18	18
Increase profits	65	9	26	64	13	23
Strategic M&A	51	3	46	76	7	17
Taking over a competitor	6	6	88	31	4	65
Marketing goals						
Increasing market share	42	10	48	54	24	22
Diversifying the product line	40	1	59	62	14	24
Capital goals						
High return	49	9	42	41	27	32
Value creation and then market flotation	41	3	55	35	22	43
Functional goals						
Production know-how	21	10	69	48	24	27
R&D know-how	16	8	76	45	22	33
Managerial know-how	16	10	74	38	27	35

Table 4
Selected accounting average data (in USD thousands; 1 USD = 3.5 NIS) per industrial firm of a kibbutz with an external partner ($N = 31$) and without an external partner ($N = 80$) two years before and two years after the year in which the M&A event occurred. The years of the M&A events are 2002–2008.

	Kibbutz industrial firm with an external partner					Kibbutz industrial firm without external partner				
	Two years before the M&A		Two years after the M&A		The change	Two years before the M&A		Two years after the M&A		The change
	USD 000	(%)	000 USD	(%)		000 USD	(%)	000 USD	(%)	
Assets	24,081	100.0%	40,509	100.0%	68.2%	11,515	100.0%	14,627	100.0%	27.0%
Debt	19,174	79.6%	27,778	68.6%	44.9%	7,885	68.5%	9,036	61.8%	14.6%
Equity	4,907	20.4%	12,731	31.4%	159.4%	3,631	31.5%	5,591	38.2%	54.0%
Turnover	29,169	121.1%	45,050	111.2%	54.4%	13,912	120.8%	17,669	120.8%	27.0%
Export	17,542	72.8%	29,767	73.5%	69.7%	5,413	47.0%	7,827	53.5%	44.6%
Operating Profit	2,549	10.6%	2,658	6.6%	4.3%	1,377	12.0%	1,845	12.6%	34.0%
Net Profit	1,724	7.2%	1,176	2.9%	-31.8%	1,152	10.0%	1,595	10.9%	38.4%
EVA-Economic Profit	1,233	5.1%	-97	-0.2%	-107.9%	789	6.9%	1,036	7.1%	31.3%

degree. This finding is consistent with the economic results of our study and in the previous studies that found that the acquiring firm did not improve its performance after the acquisition (Andrade et al., 2001; Dickerson et al., 1997; Lubatkin, 1983; Shinha et al., 2010; Tuch & O'sullivan, 2007).

4. Functional goals—the merging of functions and obtaining knowledge in various dimensions were found to be goals of low importance and low achievement. From the first three tables we can conclude that each of the three partners of the M&A, the kibbutz's management, the management of the industrial firm of the kibbutz and the external new partners, had different goals; the goals of the kibbutzim and the owners of the industrial firms, were different from those of the board of the industrial firms. The goals of the board were more similar to those of the investor-partner than to those of the kibbutz, the owner. Risk diversification was the most important goal of the kibbutz; this goal was achieved for the most part (74%). The goal of financing the growth of the business by external equity was important to the kibbutz and to the board, and for the most part, this goal was achieved. The most important goals of the board and the investor-partner were strategic, whereas the most important goals of the kibbutz were risk diversification and raising capital for the growth of the business. The leaders of the M&A process in the kibbutz considered that the strategic goals of the board and the investor-partner were achieved to a greater extent than the functional goals. The extent to which the financial goals of the investor-partner were achieved was controversial.

6. Comparative performance analysis of the M&A

Empirical studies measured the economic impact of M&As on the acquiring and acquired firms by two alternative methods (Tariq, Abdulati, & Radwa, 2011).

6.1. The evaluation of the market excess return of the shares of the acquirer and the acquired firms in a window of a few days before and after the announcement of the M&A

The studies that used this method usually found that the acquired firms tended to gain positive abnormal returns, but the acquirer firms tended to gain negative abnormal returns. The sum of these two abnormal returns tended to be positive (Andrade et al., 2001; Dickerson et al., 1997; Lubatkin, 1983; Ravenscraft & Scherer, 1989; Shinha et al., 2010). This method cannot be used to measure the impact of M&As on private firms that were not traded in the market before the M&A.

6.2. Analyzing the accounting reports before and after the M&A of privately acquired firms

There are very few studies that use this method (Tuch & O'sullivan, 2007); it is almost impossible to obtain the accounting reports of private firms before the M&A as well as after the event, as in many cases, after the M&A, the individual reports of the purchased firms do not exist.

In this study, we were able to obtain a unique set of data of accounting reports of the kibbutz-acquired industrial firms before and after they were partially purchased by the new partners, and we also obtained accounting reports of other kibbutz industrial firms that remained wholly owned by the kibbutz during the research period.

Table 4 below presents the relevant selected aggregate data of the financial reports of 80 firms that had no partners against the aggregate data reports of 31 acquired kibbutz industrial firms that had an M&A event in the period 2002–2008.

Before we report the results, let us explain the methodology of the data comparison in Table 4. For example, in 2002, we calculated the aggregate average accounting report for 2000 and 2004 for all of the firms that added an external partner during the 2002. Then, we calculated an average aggregate report for 2000 and 2004 for all of the firms without partners. A similar calculation was performed for each year from 2003 to 2008. The annual averages in Table 4 represent the aggregate sum of all of the data two years before the M&A and two years after the M&A of the firms in the years 2002–2008, divided by the number of years and the number of firms in the relevant group.

The aggregate average data per firm two years before the M&A indicates the following. The assets and annual sales of an average industrial firm with a partner was more than double that of an industrial firm without a partner. The exports of an average industrial firm that joined a partner was 60% of total sales compared to only 39% in the case of an industrial firm without a partner. The ratio of debt to assets in an average industrial firm with a partner is 79.6%, whereas this ratio is only 68.5% in an industrial firm without a partner. The ratio of sales to assets is 1.2 in both groups of firms. The profitability ratios in terms of operating profit, net profit and economic profit (EVA)[13] relative to assets were slightly lower in the research group with partners (10.6%, 7.2%, and 5.1%, respectively) compared to firms without partners (12.0%, 10.0%, and 6.9%, respectively).

The above comparative findings indicate that M&As accrued in the cases of the larger kibbutz industrial firms, with a higher ratio of exports of total sales and a higher debt ratio. Presumably, the external partners preferred to enter industrial firms that had previously demonstrated growth (and thus were larger) and competitiveness (and thus were able to export and compete abroad). Consequently, both the external partners and the kibbutz assumed that these firms have a high growth potential, primarily for exports. In addition, the higher debt to asset ratio two years before the M&A of the firms that joined the M&A indicates that these firms have a higher need for an external source of equity.

For the period of time that includes the two years before the M&A and the two years after it, the assets and sales of the group of the acquired firms and the control group of firms grew by 68.2% and 54.5%, respectively, and the ratio debt to assets decreased from 79.6% to 68.6%, respectively. During that period, the assets and the sales of the industrial firms that did not pass the M&A process and remained solely owned by the kibbutz grew at a rate of only 27.0%, and the debt ratio to assets decreased slightly from 68.5% to 61.8%. In short, the assets, sales and equity of the firms that added new investors increased at a higher rate relative to the firms that did not add new investors. These results are not surprising because the additional capital that the partners poured into the business enabled faster growth. Note that there is a potential selection bias in these results, as the new partners invested in the larger firm that had a definite record of faster growth, and thus, it is possible that these firms also had higher future potential growth and that part of it could be realized by using debt rather than the additional equity of the new investors.

Disappointingly, the ratio of sales to assets in the firms with a partner decreased during the two years before and two years after the M&As, from 1.21 to 1.11, while this ratio remained unchanged for the group of the industrial firms that were not involved in M&As during the 2002–2008 period.[14]

Table 4 exposes the negative impact of the M&A on the profitability of the group of the acquired industrial kibbutz firms. The ratios of operating profit to sales, net profit to sales and economic profit to sales decreased from 10.6%, 7.2% and 5.1% two years before the M&A to 6.6%, 2.9% and −0.2% two years after the M&A, respectively, while for the group of industrial firms without a partner, these ratios increased slightly from 12.0%, 10.0% and 6.9% two years before the M&A to 12.6%, 10.9% and 6.9% two years after the M&A, respectively. These profitability results of the M&A are disappointing relative to the expectations and forecasts of the board of directors and the investor-partner, as interpreted by the managers of the kibbutzim and the industrial firms. However, it should be noted that it is possible that the above disappointing profit impact of the M&A is subject to systematic biases or can be due to the following factors.

1. There is some evidence and claims that when the kibbutz was the sole owner of the industrial firm, various costs that were due to the industrial plant were only partially charged by the kibbutz. However, after an external partner joined the industrial firm, the kibbutz started to charge for these costs.
2. It is possible that a period of two years for measuring the synergistic impact of the M&A is an unreasonably short period of time, as the synergic impact will be fully revealed only after a longer period of time.
3. There is a possible survival bias in the control group of the industrial plants that are fully owned by the kibbutzim, as those firms that failed and went out of business during this period were closed and were not included in the sample.
4. Public and private partners joined export-oriented kibbutz industrial firms that suffered relatively more in sales and profit, mainly due to the global crisis of 2008.

To minimize the impact of the above first two biases, we used a second research methodology in which we compared the financial accounting results of industrial firms that only had a partial holding of a kibbutz (the research group) with the results of industrial firms that were fully owned by a kibbutz (the control group) at different points along a given period. In the period 2005–2009, the financial results of a research group of 24 kibbutz industrial firms[15] were compared with the results of a control group of 68 kibbutz industrial firms.

[13] The economic profit (EVA) is the after tax operating profit minus the weighted average cost of capital (WACC) times the value of the firm. In our calculations, we assumed that WACC = 10% and that the value of the firm is the total assets.

[14] Table 4 also indicates that the new partners selected firms that exported most of its products. Because the 2008 world crisis had a stronger negative impact on exports relative to domestic sales in Israel, it is possible that our above conclusion on the disappointing impact of M&As on the ratio of sales to assets is biased due to the 2008 crisis and will not remain biased if we extend the analysis to a longer period of time.

[15] Out of the 24 firms, 12 went public, 8 added strategic partners and 4 added private equity financial partners. The main differences between the strategic partner and private equity partner are as follows: Strategic partner joins the partnership in expectation to utilize positive synergies due to specific know how, consolidating operations and managerial facilities or by entering new geographic regions or lines of business quicker and with lower risk. Usually a strategic partner is involved in all levels of management. Private equity partner is a financial investor that invests in the firm for a limited period of time with a prior intention to maximize the profit on his investment by an exit at the end of the declared investment period. Usually the private equity investor is involved in the firm only at the level of the board.

In the second and longer period 2001–2009, the financial results of a smaller research group of 11 kibbutz industrial firms were compared with those of a control group of 51 industrial kibbutz firms.

Table 5 below presents the selected financial results of the two groups in the two periods.

The main conclusions from Table 5 are:

1. Once again, it can be observed that the firms in the research group are larger and more export oriented relative to the firms in the control group. In the years 2001–2009, the average exports/sales of a firm in the research group was 63%, while the rate for a firm in the control group was only 36%. In the years 2005–2009, the exports/sales average in the research group was 69%, while the average in the control group was only 45%.
2. Once again, it can be observed that the firms in the research group are larger and more export oriented relative to the firms in the control group. In the years 2001–2009, the average exports/sales of a firm in the research group was 63%, while the rate for a firm in the control group was only 36%. In the years 2005–2009, the exports/sales average in the research group was 69%, while the average in the control group was only 45%.
3. During both research periods, the growth rates of assets, debt and sales were much higher in the research group than in the control group. However, the average growth rates of equity and exports was approximately the same for both groups
4. In 2009 and in the 2001–2009 group, the assets of an average firm in the research group was 145,938 USD, while in 2005–2009, which included 24 firms with partners, it was only 67,985 USD. This finding indicates, again, that the first mergers were with the largest kibbutz industrial firms, and over the years, the external partners also joined the smaller kibbutz industrial firms.
5. In both periods, the average debt per firm was greater in the research group. The average rate of growth of debt in both periods was approximately double in the research group compared to the control group. In the period 2001–2009, the average financial leverage (debt over assets) in the research group changed negligibly (an increase of 0.50–0.51), while in the other group, the debt ratio dropped from 0.66 to 0.52. In 2005–2009, the rates of change of the leverage were similar for both groups.
6. The average equity per firm in the research group was higher than the average in the control group, but the growth rate of equity in 2001–2009 was slightly greater for the control group. In the period 2005–2009, the growth of the rate of equity was similar for both groups.
7. In both periods, the average growth of the operating profit was greater in the research group; however, the operating profit divided by assets in 2001–2009 increased more in the control group, while in 2005–2009, it increased to a greater degree in the research group.
8. A detailed observation for each year (not displayed in the table) indicates that in both periods, the growth rates of a firm in the control group were stable compared to the growth rate of the average firm in the research group. The standard deviation among the firms of operating profit, net profit, economic profit, ROA and ROE was much higher for the firms in the research group.

Due to the high variations of the accounting results within the research, we had difficulties measuring the significance of the differences of the averages of the two groups. Thus, to better measure the impact of the M&A on the acquired kibbutz industrial firm, a multivariate stepwise regression analysis was conducted for the periods 2001–2009 and 2005–2009. The annual results of each firm provide one observation in these regressions. The number of observations in the 2001–2009 regression is 496, and for the period 2005–2009, it is 368. The dependent variables in these regressions are the ratios of operating profit to assets (ROA) and the net profit to equity (ROE). The dependent variables are:

1. The dummy variable of the years ranked from 1 to 8 according to the growth rate of the sales of the firms (1 is the lowest growth and 9 is the highest growth).
2. The dummy variable of the firms that received a value of 1 when the firm is fully owned by the kibbutz for all of 2001–2009 and a value of 0 otherwise.
3. The financial leverage of each firm is measured by the ratio of debt to the total assets in each year.
4. The ratio of exports to total sales for each firm in each year.
5. The ratio of net profits to sales for each firm in each year.
6. The ratio of sales to assets for each firm in each year.

Our main interest in these regressions is the coefficient of the dummy variable of having or not having an external partner in the kibbutz industrial firm. The results of the regression analysis when the dependent variable is ROA are given in Table 6.

Table 6 exhibits only the significant factors that determine ROA. In the longer period of 2001–2009, the type of ownership with external profits enters into the regression. Its slope is positive but very flat (0.045) and significant (less than 1%). Specifically, according to this regression, adding an external partner to a kibbutz industrial firm has an expected negative impact on ROA. The type of ownership adds very little to the R squared (an increase from 0.522 to 0.530). In the shorter period of 2005–2009, we do not find a significant coefficient for having an external partner. The coefficient of the ratio of debt over asset is negative in both periods. ROA is the ratio of operating profit over assets. Because interest expenses are not part of the operating profit, it can be assumed that the negative coefficient is caused by the heavy debt finance of new investments that insufficiently increased the operating profit. In the period 2005–2009, we also observe a significant coefficient for the ranking of the year according to the growth of sales. The R squared decreases from 0.530 in 2001–2009 to only 0.429 in 2005–2009.

The reasons for this decrease are probably the greater weight of the turbulent years of 2008 and 2009 and the fewer observation points (368 observations in 2005–2009 compared to 496 in 2001–2009).

ROE is very weakly explained by our independent variables. In the period 2001–2009, only the ratio of net profit over sales has a significant positive coefficient of 1.185**, and the *R* squared is only 0.031. In the period 2005–2009, the *R* squared is only 0.037, but we found a positive significant impact for not having an external partner (0.508), a negative impact for the ratio of debt/assets (−0.773) and a positive impact for the year in terms of the ranking of the year by annual growth.

In sum, Table 5 and the regression analysis that is presented in Table 6 reveal that adding a partner to the kibbutz industrial firm contributed to the growth of assets, sales, debt and equity, but did not contribute to improving leverage, efficiency in terms of the ratio of sales over assets and profitability in terms of the ratio of operating profit over assets.

However, the finals conclusions should be carefully considered because of potential biases, such as a “survival bias” in the control group of firms without a partner because this group did not include firms that were closed due to low or negative profits dur-

[16] The return on assets (ROA) is the annual resulting of performance, which is independent of the capital structure. The internal rate of return (IRR) on investment is an estimated long-term return where ROA is the actual annual resulting return. It is worth noting that only when the ROA is above the cost of borrowing financial leverage will there be an increase in the return on equity (ROE).

Table 5
Comparative analysis of the selected data (in USD thousands) of the financial reports of industrial firms that are fully owned by a kibbutz versus those that are only partially owned by a kibbutz in the periods 2001–2009 and 2005–2009.

	Average of Industrial firms in the 2001–2009 sample						Average of Industrial firms in the 2005-2009 sample					
	Partially owned by the Kibbutz			Fully owned by the Kibbutz			Partially owned by the Kibbutz			Fully owned by the Kibbutz		
	2001	2009	2009/2001	2001	2009	2009/2001	2005	2009	2009/2005	2005	2009	2009/2005
Assets	66,206	145,938	120%	11,361	21,125	86%	67,985	90,608	33%	13,623	17,480	28%
Debt	32,929	74,655	127%	7,531	11,059	47%	41,369	45,782	11%	8,718	9,408	8%
Equity	33,277	71,283	114%	3,830	10,066	163%	26,616	44,826	68%	4,905	8,072	65%
Sales	65,647	136,133	107%	13,893	23,011	66%	69,955	85,002	22%	16,759	19,375	16%
Export	41,191	98,208	138%	5,048	11,258	123%	48,389	59,354	23%	7,541	9,309	23%
Operating profit	4,402	9,112	107%	1,211	2,875	137%	3,761	6,143	63%	1,660	2,307	39%
Net Income	2,604	12,097	365%	805	2,397	198%	3,129	7,428	137%	1,539	1,896	23%
Economic Profit (EVA)	724-	4,969	786%	422	1,390	229%	468	10,308	530%	1,048	1,089	4%
EVA/Equity	0.02-	0.07	420%	0.11	0.14	25%	0.02	0.07	274%	0.21	0.13	37%-
Net profit/Sales	0.04	0.09	124%	0.06	0.1	80%	0.04	0.09	95%	0.09	0.1	7%
Sales/Assets	0.99	0.93	6%-	1.22	1.09	11%-	1.03	0.94	9%-	1.23	1.11	10%-
Operating Profits/assets	0.07	0.06	6%-	0.11	0.14	28%	0.06	0.07	23%	0.12	0.13	8%
Net Income/equity	0.08	0.17	117%	0.21	0.24	13%	0.12	0.17	41%	0.31	0.23	25%-
Debt/Assets	0.5	0.51	3%	0.66	0.52	21%-	0.61	0.51	17%-	0.64	0.54	16%-

Table 6
The significant independent variables[a] in a stepwise regression when the dependent variable is the ROA.[16]

2001–2009		2005–2009	
Independent variables	Slop	Independent variables	Slop
Profits/sales	0.431***	Sales/assets	0.051***
Sales/assets	0.052***	Profits/sales	0.173***
Exports/sales	0.01***	Debt/assets	−0.099***
Partner = 0, otherwise = 1	0.045***	Annual ranking of growth of sales	0.014**
Debt/assets	−0.055***	Export/sales	0.000
R square	0.530***	*R* square	0.429*

* less than 10%.
** less than 5%.
*** less than 1% significance.
[a] The correlation matrix between the independent variables exposes that in the two selected periods there was a significant negative correlation between the leverage ratio (debt/assets) and the profit margin (profits/sales). In addition in the period of 2001 to 2009, there was a significant positive correlation between the ratios of exports/sales and profit margin. All of the other correlations between the independent variables were insignificant.

ing the periods 2001–2009 and 2005–2009. In addition, the global economic crisis that occurred in the second half of the research period had a relatively more negative impact on firms with partners that were export oriented relative to firms without partners. Another bias that may negatively impact the addition of partners to the kibbutz industrial firms is the short period of measurement, which probably does not fully reflect the results of the extra capital invested by the external partners and the synergy between the kibbutz industrial firms and their new external partners.

7. Summary and recommendations

From the perspective of the kibbutz leaders of the process, the most important goals of the kibbutz in diluting the kibbutz's holdings in their industrial firms were risk diversification, equity capital for growth and ensuring business continuity. The most important goals of the board of directors were increasing sales and profitability and financing the growth of the business. The most important goals of the partner who invested in the kibbutz industrial firm were to increase revenue and profit. The shared goals of the three parties involved in the M&A transaction were business growth and increasing its profitability. According to our findings, sales and assets have grown in industrial firms with partners more than in industrial firms without partners, whereas the efficiency and profit ratio increased more in the kibbutz industrial firms that were fully owned by the cooperative-like kibbutz.

The disappointing results of the M&As of external partners and kibbutz industrial firms are consistent with the findings in the literature that indicate that M&As tend to generate value destruction for the acquiring firms. However, the results that are derived from considering the accounting profitability ratios rather than market valuation are subject to some potential survival bias in the control group of the industrial firms that are fully owned by the kibbutz as well as bias due to the 2008–2009 crisis, which had a more negative impact on the research group that was more export oriented.

An extension of our study should consider a longer time period in an effort to capture all of the synergetic impacts of the M&As and also to consider the contribution of the M&As not only for the industrial firm of the kibbutz but also for the kibbutz, the original owner of the acquired industrial firm. Only after these extensions are implemented may we be able to evaluate the contribution of the M&As to the kibbutzim, the original owners of the industrial plants.

Additional studies of the kibbutz are required in order to shade light on the phenomenon of creation successful industry enterprises primary by cooperatives.

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