Understanding and managing dynamic stakeholder relationships around mergers and acquisitions

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MACQUARIE University
SYDNEY · AUSTRALIA

I present this thesis in fulfilment of the requirements for the degree of

Doctor of Philosophy (PhD)

Macquarie Business School

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The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text. I hereby declare that I have not submitted this material, either in full or in part, for a degree at this or any other institution.

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Simon Segal	Accounting & Corporate Governance/Macquarie Business School	Accounting and Finance. First published: 12 August 2020 https://doi.org/10.1111/acfi.12688

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Stakeholder relationship implications of M&A activity		■ In Progress or Unpublished work for thesis submission ☐ Submitted for Publication ☐ Accepted for Publication ☐ Published
Name of **corresponding author**	Department/Faculty	**Publication details:** Indicate the name of the journal/ conference/ publisher/other outlet
Simon Segal	Accounting & Corporate Governance/Macquarie Business School	Earlier versions presented at RMIT Governance and Sustainability (GAS) Conference 2018, Melbourne and the 9th Annual Australasian Business Ethics Network (ABEN) Conference 2019, Melbourne.

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Managing stakeholder relationships during the Tatts–Tabcorp merger process.		☐ In Progress or Unpublished work for thesis submission ☐ Submitted for Publication ☐ Accepted for Publication ■ Published
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Acknowledgements

My journey leading to this thesis started as a young boy sitting on the passage steps in our family home reading the daily business newspaper, drawn to the M&A news. I would then *kibitz* (chat, converse) with my father, unable to beat me to read the newspaper first, about the latest developments. And so my dialogue around M&A excitedly started. It continues a few generations later, without newspapers breaking the news to me, as I share the enthusiasm of my children, Zac and Chloe, in M&A.

My personal hermeneutic circle in completing the thesis has involved not so much a circle but *bollamakiesies* (somersaults), dances and skids. I learned how to read and reread, think and rethink, write and rewrite and then back again. Holding me through the turbulence has been my wife Leora, never allowing me to get too intense or serious about the task, and Zac and Chloe. Professionally, I could not have asked more from my supervisors Professor John Dumay and Distinguished Professor James Guthrie (AM). The "good cop bad cop" duo seamlessly, steadily and calmly guided a journalist with no background in thinking, arguing or writing academically to realise the beauty in "cooking lasagne one layer at a time rather than mixed up like a bowl of spaghetti", where academic paragraphs contain an argument with a claim, evidence and conclusion, novel for a journalist who has no difficulty writing a one sentence paragraph. This was no small task. My gratitude to them is for the patience and faith in me that I could get the task done. It goes without saying that the publications and this thesis would not remotely have happened without their continued willingness to offer insight, wisdom and support which I certainly appreciate and respect. I hope our dialogue and publications continue.

My good friend Associate Professor Steven Segal inspired me to undertake the journey, ever available at and beyond our weekly breakfasts to share my personal journey in its joys and struggles. We have still not resolved whether stakeholder "relationships" or "concerns" are balanced, how this is ethical, and so much more. Yet in the end the parts became a whole, as Steven says "like a jigsaw puzzle, as the parts began to

emerge the whole began to take shape and as the whole began to emerge it became easier to see how the parts stood in relationship to each other." Dr Frank Song so generously and enthusiastically ploughed through drafts to help me craft an academic writing structure and style.

Finally, I have led a blessed life from higher forces with loving and supportive parents Mervyn and Gill who would take such *nachos* (pride) in my progress against many odds. My loss is the *kibitzing* that started on the passage stairs cannot continue directly. I take comfort that while I do not have the answers I have much more to offer around the questions and that this thesis is a fitting tribute to them.

Abstract

Public questioning of the desirability and sustainability of the market economy and the societal role of business is arguably unprecedented. These concerns are inextricably linked to mergers and acquisitions (M&A) activity, significant corporate events with disruptive consequences for stakeholder relationships.

In this thesis, I explore disruptions around the complex web of stakeholder relationships during an M&A activity, and the public relevance of M&A activity examined through the A$11bn mega-merger process between Australian gaming groups Tatts Group Limited (Tatts) and Tabcorp Holdings Limited (Tabcorp) over 2016–2017. To develop a stakeholder group relationship framework a qualitative case study methodology was used.

Gaps identified in the stakeholder and M&A literature point to the thesis research question: How can we identify, understand and address the stakeholder and management implications of M&A activity? The general finding is this can be done by understanding M&A activity as social, economic and political processes. To do this involves identifying, understanding and addressing stakeholder relationships as disruptive of, and disrupted by, M&A activity through their multidirectional, inter-group, intra-group and balanced relationships.

The thesis is by publications, combining four articles and a narrative forming the main body of work.

Article 1 provides a structured literature review (SLR) exploring the literature connecting stakeholders with M&A activity. It finds the extant literature is dominated by a unidirectional analysis that primarily considers the effect of M&A on stakeholders and falls short in understanding the complex web of relationships between various stakeholder groups and M&A activities.

Article 2 defines stakeholder "relationships" and "balance", and a qualitative case study methodological approach outlined. Examining regulator and racing industry relationships during the Tatts–Tabcorp merger

process, the finding is that stakeholder relationship implications of M&A activity can be identified and addressed by examining their balances, involving understanding stakeholder relationships as multidirectional, between and among stakeholders.

In **Articles 3 and 4,** I examine the management of several stakeholder group relationships during the Tatts –Tabcorp merger process. This was applied to six stakeholder groups – shareholders, Pacific Consortium, the racing industry, regulators, competitors and advisers. The management of these stakeholders is found to be crucial in securing the merger's implementation, which required both accommodating and disempowering various stakeholder interests. Balancing several stakeholder group interests allowed the parties to weaken and ignore other powerful stakeholder group concerns.

The thesis contributes to theory, praxis and policy in several ways. The contributions to the ethical stakeholder and M&A theories are theoretical stakeholder relationship frameworks for: 1) investigating disruptions around stakeholder relationships during M&A activity; 2) bringing the web of stakeholder relationships into "sight," making it something tangible that requires its own explanation; and 3) showing a way to make explicit how these stakeholder relationships played out and how power dynamics were managed. For practitioners the thesis points to ways to: 1) consider and incorporate stakeholders into M&A activity; 2) manage the uneven balance in stakeholder concerns; and 3) give concrete meaning to stakeholder capitalism as it relates to M&A activity. For policymakers, the thesis informs the public policy debate about M&A activity and, by extension, the policy debate about the societal roles of the market economy and business.

The four associated thesis articles

Article	Title
1	Segal, S., Guthrie, J., & Dumay, J. (2020). Stakeholder and merger and acquisition research: a structured literature review. *Accounting & Finance.* First published: 12 August 2020 https://doi.org/10.1111/acfi.12688
2	Segal, S., Guthrie, J., & Dumay, J. (2020). Stakeholder relationship implications of M&A activity. Unpublished. Earlier versions presented at RMIT Governance and Sustainability (GAS) Conference 2018, Melbourne and the 9th Annual Australasian Business Ethics Network (ABEN) Conference 2019, Melbourne.
3	Segal, S., Guthrie, J., & Dumay, J. (2019). An Australian case study of stakeholder relationships in a merger and acquisition process. *Advances in Mergers and Acquisitions*, Emerald Publishing Limited, Bradford, Vol. 18, 65-81.
4	Segal, S. (2020). Managing stakeholder relationships during the Tatts–Tabcorp merger process. *Journal of Behavioural Economics and Social Systems, 2*(1), 37-64.

1 Introduction

> *Capitalism may be at a tipping point. For too long, policymakers, governments and business leaders have done a poor job of helping those who have been left behind and lost sight of how capitalism can create more opportunity for all* – JPMorgan Chase chairman and CEO Jamie Dimon (2020)

> *There is concern amongst people – more than we've seen in the past – where they think that system is not dealing with them fairly. We want faith in the market economy. And I know we see a lot of concern about populism in terms of the United States and the UK. I don't think people want to throw out a market economy, they just want it to work in ways that are fair to them* – Australian Competition & Consumer Commission chairman Rod Sims (Thomson, 2020).

> *Capitalism in flames, populism and nationalism on the march across Europe, a US president bent on demolishing free trade, a British shadow chancellor calling openly for the overthrow of capitalism itself … the 21st century is not going to script. The market system from which global prosperity has emerged over two centuries is now under attack from all sides, its basic legitimacy assailed from the right by critics of unfair competition and crony capitalism, from the left by campaigners against inequality and "market fundamentalism* (Norman, 2018).

These quotes reflect arguably unprecedented questioning about the desirability and sustainability of the market economy and concerns about corporate misconduct, power, inequality and the societal role of business. Sandel (2000) decades-old catchphrase that "market prices have increasingly replaced moral values" is apt in capturing the mood. When the world is at a "critical crossroads" with people "revolting against the economic 'elites' they believe have betrayed them," the World Economic Forum (WEF) chose "Stakeholders for a Cohesive and Sustainable World" as the theme for its 50th Annual Meeting in 2020

(World Economic Forum, 2020). While the evidence is yet to emerge, the coronavirus pandemic can logically be assumed to be intensifying such pressures on corporate management and the market economy.

As a corporate growth strategy, merger and acquisitions (M&A) activity is intrinsic to the market economy, linked to rising corporate power, weakening competition and growing inequality (Triggs and Leigh, 2019).[1] M&A activity furthermore involves vast capital; global M&A volume was slightly above US$4 trillion for each of the past two years (Dealogic, 2020). As a massive global phenomenon forming a key element of the market economy, there is considerable research value to be gained by investigating the public interest around M&A activity. In this thesis, a stakeholder lens is adopted to understand what is meant by "public" and "interest" in M&A activity, asking *can we identify, understand and address stakeholder and management implications of M&A activity?*

This investigation applies a qualitative case study methodology to an examination of the key stakeholder relationships during the 2016–2017 merger process between Australian gaming groups Tatts Group Limited (Tatts) and Tabcorp Holdings Limited (Tabcorp). This A$11bn mega-merger is examined from its announced agreement in October 2016 to its implementation in December 2017. (Hereafter currency is in

[1] Investopedia (2019) defines a merger as "when two separate entities combine forces to create a new, joint organization." An acquisition refers to the "takeover of one entity by another." Bruner (2004, p. 4) says the terms are used interchangeably. His textbook is titled *Applied Mergers and Acquisitions* and refers to "M&A" throughout. The references in this thesis reflect the heavy use of "M&A" in the literature compared to "merger" or "acquisition". This thesis thus refers to "M&A" when not referring specifically to Tatts and Tabcorp which, for reasons explained below, is referred to as a "merger." Legally, Tatts and Tabcorp entered into a scheme of arrangement (scheme). The two most common ways to acquire control of a listed Australian company are by schemes and takeover bids (Herbert Smith Freehills, 2016). A scheme is a statutory procedure between a target company and its shareholders whereby a bidder acquires all shares in the target company and must be approved by target shareholders (75% by value of shares voted and 50% by number of shareholders who vote) and then by the court. Once these approvals are obtained, the transaction will bind all target shareholders, whether they voted in favour of the scheme or not. Because the process is driven by the target, schemes can only be used to acquire a target on a friendly basis (Herbert Smith Freehills, 2016). The independent report into the Tatts/Tabcorp scheme (Tatts, 2017, p. 121) distinguishes that while the scheme was technically a control transaction, the commercial reality is that, from a shareholder's perspective, it was a merger, which saw Tatts shareholders owning 58.4% of the combined group and Tabcorp shareholders 41.6%. The Tatts/Tabcorp scheme is thus referred to as a merger in this thesis.

AUD unless specified otherwise). The thesis is by publication, based on four articles attached as appendices (Appendices 1–4) and contextual material connecting the items forming the main body of work.

This introductory chapter outlines the research aims and findings of the four articles and the thesis chapters (Chapter 1.1), explaining how each contributes to forming and answering the research question. A thesis structure is presented (Chapter 1.2) as a readers' guide. An overview of the thesis contributions to stakeholder theory and M&A research, praxis and policy is provided (Chapter 1.3).

1.1 Research questions, findings and connections of articles to the main thesis

The research question and key findings of the four publications included in this thesis and their connection to the central thesis are presented in this chapter. Table 1.1 shows each article, its peer-review status, research question, key findings and relation to the thesis.

Table 1.1: Research questions, key findings of articles and thesis connections

Article	Title	Peer review status	Research question	Findings	Thesis connection
1	*Stakeholder and merger and acquisition research: A structured literature review*	Published in *Accounting & Finance.* Presented at 9th Asia-Pacific Interdisciplinary Research in Accounting (APIRA) Conference 2019 Auckland.	How has research linking stakeholders and M&A developed? What has been the focus and critique of the literature linking stakeholders and M&A? What is the possibility of future research linking stakeholders and M&A?	Literature linking stakeholders and M&A is dominated by a unidirectional analysis that primarily considers the effect M&A has on stakeholders, falls short in investigating inter- and intra- stakeholder relationships and in eliciting the complex web of relationships around M&A activity.	The main part of the literature review.
2	*Stakeholder relationship implications of M&A activity*	Presented at RMIT Governance and Sustainability (GAS) Conference 2018, Melbourne. Presented at 9th annual Australasian Business Ethics Network	How can we identify and address stakeholder relationship implications of M&A activity?	We can identify and address stakeholder relationship implications of M&A activity by examining balances around these relationships.	1) Qualitative case study methodology. 2) Research relevance of Tatts–Tabcorp merger process. 3) Research relevance of stakeholder approach. 4) Part of the case study that develops stakeholder group

		(ABEN) Conference 2019, Melbourne.			relationship framework (examines 2 stakeholder groups). 5) Defines "relationship" and "balance". 6) Incorporates Mitchell et al.'s (1997) salience typology to identify which stakeholders counted.
3	*An Australian case study of stakeholder relationships in a merger and acquisition process*	Published in *Advances in Mergers & Acquisitions*, Volume 18, Emerald Publishing Limited, 65-81.	What is the relevance of stakeholder management to the Tatts–Tabcorp merger process?	Management of the various stakeholder group relationships played a critical role in mitigating potentially deal-breaking conflicts.	Part of case study that develops stakeholder group relationship framework (examines 4 stakeholder groups).
4	*Managing stakeholder relationships during the Tatts–Tabcorp merger process*	Published in *The Journal of Behavioural Economics and Social Systems,* Volume 2, Number 1, 37.64.	How was Tatts and Tabcorp's stakeholder management affected by, and how did it affect, its merger process?	Managing stakeholder group relationships during the Tatts–Tabcorp merger process involved both balancing and disempowering key stakeholder groups.	1) Part of case study that develops stakeholder group relationship framework, examines six stakeholder groups. 2) Tatts–Tabcorp merger background. 3) Examines stakeholder management in hermeneutic terms. 4) Incorporates Savage et al.'s (1991) diagnostic typology of stakeholder group types. 5) Applies concept of balance.
Thesis	*Understanding and managing dynamic stakeholder relationships around mergers and acquisitions*		How can we identify, understand and address stakeholder and management implications of M&A activity?	We can identify, understand and address stakeholder and management implications of M&A activity by understanding that activity as social, economic and political processes.	Extension of interconnected findings of the four thesis articles attached.

1.1.1 Article 1

In a structured literature review (SLR) in Article 1 (Segal *et al.*, 2020a) (Appendix 1) that links stakeholder and M&A research, I ask how such research has developed, what has been its focus and what opportunities this opens for future research. Applying stakeholder concepts to M&A is now diverse in terms of stakeholder groups researched, analytic approaches, research methodologies and research disciplines. Yet, what is identified from the SLR is fragmented research that is limited in explicitly understanding the complex and dynamic stakeholder relationships during an M&A process in a case study setting.

The findings from the SLR are that prior research is dominated by unidirectional analysis that considers the effect of M&A activity on stakeholders, mainly ignoring the effect of stakeholders on M&A activity. The literature also falls short in investigating inter- and intra- stakeholder group relationships and fails to elicit the complexity of the web of relationships between various stakeholder groups and M&A activities. Redefining stakeholder relationships as multidirectional, involving a web of relationships between and among stakeholder groups, facilitates a more explicit understanding of M&A activity and stakeholders' roles in it. Such opportunities were taken up in the other thesis articles, which develop a more comprehensive methodology and framework than adopted in the literature previously in order to understand how M&A activities affect stakeholders as well as how M&A activities are affected by stakeholders. Taking a more nuanced approach that allows for complexity opens the possibility for dialectical forms of explanation of stakeholder relationships during M&A activity.

1.1.2 Article 2

To respond to the research gaps identified in Article 1 (Segal *et al.*, 2020a), Article 2 (Segal *et al.*, 2020b) (Appendix 2) explores how to identify, understand and address the stakeholder relationship implications of M&A activity. Applied to a stakeholder analysis of the Tatts–Tabcorp merger process, a qualitative case study methodological approach is adopted to identify, understand and address the regulator and racing industry relationship implications of the Tatts–Tabcorp merger process. These stakeholders are chosen because of their power, net public benefit concerns, relevance to the merger process and data availability. In using stakeholder theory, the documentary and interview data were integrated and sorted into a stakeholder group relationship framework about regulator and racing industry stakeholders.

Article 2 (Segal *et al.*, 2020b) also explains the research relevance of the Tatts–Tabcorp merger process and stakeholder theory to answer the research question. Given the involvement of complex, conflicted and powerful stakeholder interests and availability of extensive data, the Tatts–Tabcorp merger process (from announcement to implementation) lends itself to an investigation of stakeholder relationships. A stakeholder approach to this analysis unpacks what is meant by "public" and "benefit" in analysing the public benefits around the merger process.

By triangulating the literature to the case data, I found that regulator and racing industry relationships disrupted, and were disrupted by, the Tatts–Tabcorp merger process through four interrelated dynamics – multidirectional, inter-group, intra-group and balanced relationships. The general finding is that stakeholder relationship implications of M&A activity can be identified, understood and addressed by examining balances around these relationships. To do so involves understanding stakeholder relationships as disruptive, and disrupted by, M&A activity through their multidirectional, inter-group, intra-group and balanced relationships.

Article 2 (Segal *et al.*, 2020b) also contributes an understanding of a "stakeholder relationship" perspective – the conceptual basis underpinning the thesis – as concerns in relationship to each other (Flores and Solomon, 1998). The SLR revealed that when M&A research considers stakeholders, it mostly does so without understanding "relationship". These relationships are treated mainly as unidirectional, static and linear in previous research. Article 2 (Segal *et al.*, 2020b) indicates stakeholder interactions are analysed via their relationships with others, rather than based on their attributes (Kujala *et al.*, 2012). Specific stakeholders will be more critical than others, and the strategy to deal with each stakeholder depends on the importance of that stakeholder to the organisation relative to other stakeholders (Jawahar and McLaughlin, 2001). The relative importance of stakeholder groups was identified by drawing on Mitchell *et al.'s* (1997, p. 874) typology of stakeholder salience.

Balance around stakeholder relationships is also a core concept to the thesis, introduced in Article 2 (Segal *et al.*, 2020b). Balance is a critical stakeholder principle as it represents a mechanism by which managers pay attention to, elicit and maintain the support of stakeholder groups with disparate needs and wants (Reynolds *et al.*, 2006, p. 286). Balancing stakeholder relationships is a "process of assessing, weighing and addressing" competing claims of those who have a stake in the actions of an organisation (Reynolds *et al.*, 2006, p. 286) that "includes behaviours that bring some kind of resolution to conflicting stakeholder needs or requests" (Reynolds *et al.*, 2006, p. 286).

1.1.3 Article 3

The gaps in the literature identified in the SLR (Article 1) (Segal *et al.*, 2020a) are responded to in Article 3 (Segal *et al.*, 2019)(Appendix 3) by applying part of the methodology outlined in Article 2 (Segal *et al.*, 2020b) to explore the relevance of stakeholder management to the Tatts–Tabcorp merger process. The stakeholder group relationship framework developed in Article 2 (Segal *et al.*, 2020b) was applied to four stakeholder groups – regulators, shareholders, the racing industry and competitors – chosen because they were crucial stakeholders that required management if the merger was to proceed. It was found that the effective management of these stakeholder relationships played a critical role in the merger implementation. By anticipating, pre-empting and negotiating potentially merger-breaking stakeholder conflicts, the merging parties won support for the merger from critical stakeholders.

1.1.4 Article 4

In Article 4 (Segal, 2020) (Appendix 4), I broaden the scope of analysis and range of stakeholder groups analysed in Article 3 (Segal *et al.*, 2019)and provide a background to the Tatts–Tabcorp merger process that incorporates describing the merging parties, merger rationale and key risks (e.g., regulatory hurdles and rival bids). In answering how Tatts and Tabcorp's stakeholder management was affected by, and how it affected, the merger process, the scope of analysis is broadened through examining Tatts' and Tabcorp's stakeholder management in hermeneutic terms as a dynamic process of the whole (the merger process) and its parts (the stakeholder relationships) coming together through stakeholder management. I apply the concept of balance introduced in Article 2 (Segal *et al.*, 2020b) and employ Savage *et al.'s* (1991) diagnostic typology of stakeholder group types to examine how the most potentially disruptive stakeholder relationships were managed during the merger process.

This analysis expands the stakeholder group relationship framework developed in Article 2 (Segal *et al.*, 2020b), which is applied to six stakeholder groups deemed the most likely to disrupt the merger process – shareholders, Pacific Consortium, the racing industry, regulators, competitors and advisers.

The findings in Article 3 (Segal *et al.*, 2019) are reinforced by further findings that managing stakeholder group relationships involved both balancing and disempowering key stakeholder groups. By anticipating, pre-empting and negotiating potentially merger-breaking stakeholder conflicts, the merging parties won support for the merger from key stakeholder groups and in so doing neutralised several key stakeholder groups. Stakeholder group management was critical to ensuring implementation of what seemed a far from inevitable merger.

1.1.5 Thesis

In integrating the questions and findings in the four thesis articles summarised above, the thesis question is developed:

How can we identify, understand and address stakeholder and management implications of M&A activity?

The articles identify and empirically illustrate four characteristics of stakeholder relationships during the Tatts–Tabcorp merger process – they are multi-directional, among stakeholder groups, within stakeholder groups and not balanced. To examine the public interest and public relevance of M&A activity, what remains is to frame stakeholder relationships around M&A activity as social, economic and political processes. In doing this, the interconnected findings of the thesis articles are extended to the thesis finding that we can identify, understand and address stakeholder and management implications of M&A activity by understanding M&A activity as social, economic and political processes. Breaking the merger process into these stakeholder relationship parts and then reconstituting them contributes to identifying, understanding and addressing M&A activity in a way that makes explicit its implicit social, economic and political processes.

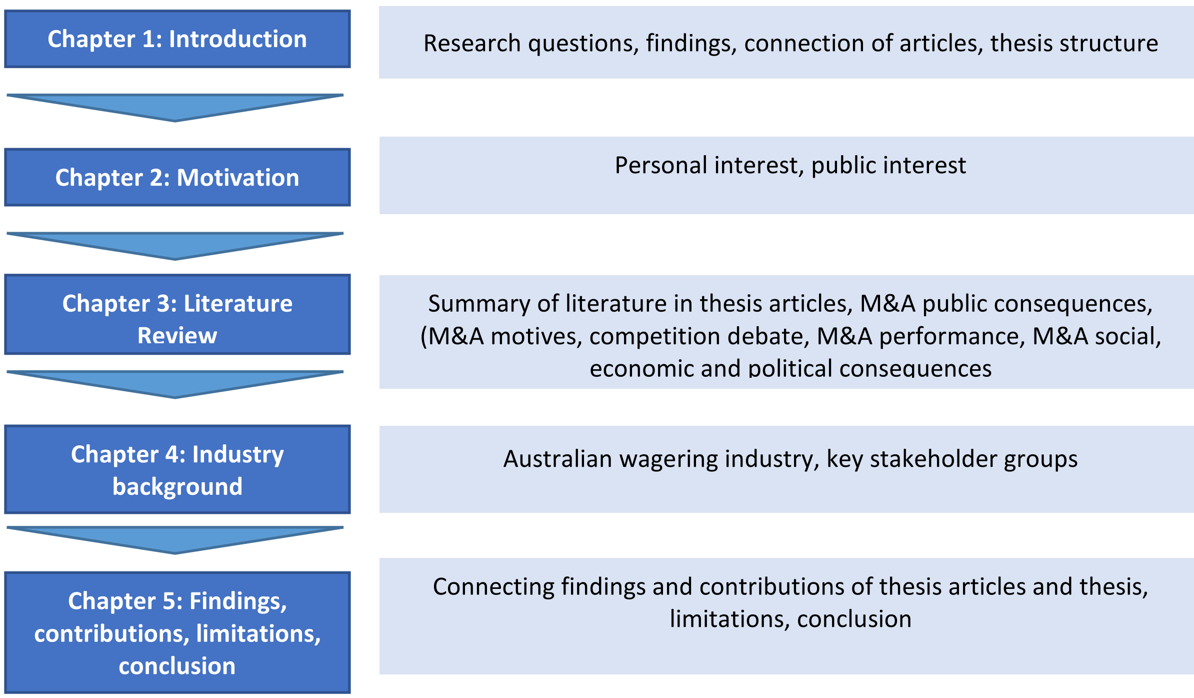
1.1.6 Thesis connection to articles

I have explained above how Article 1's SLR (Segal *et al.*, 2020a) identified literature gaps that inform the other thesis articles and thesis. A qualitative case study methodological approach outlined in Article 2 (Segal *et al.*, 2020b) underpins the methodological approach and stakeholder group relationship framework of the other thesis articles. It also defines critical concepts ("relationship" and "balance") and Mitchell *et al.'s* (1997) salience typology used in the other articles and thesis. In Articles 3 (Segal *et al.*, 2019) and 4 (Segal, 2020), parts of the literature and methodology developed in Articles 1 and 2 are applied to examine the management of various stakeholder group relationships during the Tatts–Tabcorp merger process. In the context of growing concerns about the desirability and sustainability of the market economy and the social role of business, the main thesis integrates the findings of the thesis articles, framing them around social, economic and political processes.

1.2 Overview of thesis structure

In documenting this research, this thesis comprises five main chapters, organised as reflected in Figure 1.1.

Figure 1.1: Structure of thesis



Chapter 1: This introductory chapter details the questions and brief findings of the thesis articles, explaining the connections of each piece to the thesis (Chapter 1.1). A structure for the thesis chapters is provided.

Chapter 2: In this chapter, a personal (Chapter 2.2) and public motivation (Chapter 2.3) behind this thesis is outlined. My personal interest is inspired by covering M&A in the media as a journalist/editor/commentator. Public interest in M&A is against a backdrop of arguably unprecedented concerns about the desirability and sustainability of the market economy and questioning of the societal role of big business.

Chapter 3: The literature chapter provides a summary and connection of the literature reviews of the four thesis articles (Chapter 3.2) and reviews the literature around the public consequences of M&A activity

(Chapter 3.3), including M&A motives, the debate around competition, M&A performance and the social, economic and political implications of M&A.

Chapter 4: For a thesis concerned about the public consequences of M&A activity it is instructive to understand the integral role of Australia's wagering industry, which is dominated by Tatts–Tabcorp, in the country's social, economic and political fabric. This chapter describes the historical development of Australia's wagering industry (Chapter 4.2) and the role of the three stakeholder groups most closely associated with this development (Chapter 4.3).

Chapter 5: The findings and contributions of the four articles are summarised and connected in this chapter (Chapter 5.2) and the central thesis findings and contributions introduced (Chapter 5.3) before outlining the research limitations (Chapter 5.4) and making concluding observations (Chapter 5.5)

1.3 Summary

In this chapter, I introduced the thesis topic, research questions and findings, highlighting how each thesis article and thesis chapters contribute to forming and answering the research question (Chapter 1.1). The chapter also provided an overview of the thesis structure (Chapter 1.2).

2 Thesis motivations

2.1 Introduction

This chapter outlines my thesis motivations – personal interest (Chapter 2.2) and public interest (Chapter 2.3). Personal interest is inspired by covering M&A as a journalist/editor/commentator. Public interest in M&A is against a backdrop of arguably unprecedented concerns around the market economy and societal role of business, including harms of market concentration leading to abusive corporate activities, excessive power and widening inequality. While the evidence is not yet in, logically, such concerns are being exacerbated by the coronavirus pandemic

2.2 Personal interest

As a specialist M&A journalist/editor/commentator since 2005, I come to my thesis with enthusiasm, expertise, nuance and experience in M&A practices and events. In this role, I have witnessed, questioned and wondered about the regularity of M&A deals failing to complete or failing after implementation, which in my experience can in part be explained as a shortcoming of effective stakeholder engagement, management and support.

M&A practitioners and the boards they advise have an undoubtedly strong technocratic focus around the financial, strategic and legal aspects of M&A. With a focus on shareholders and financial rewards, the potential impact of M&A activity for other stakeholders is considered secondary (e.g. employees via job losses, wage pressure), consumers (price rises, product quality deterioration), community (environmental degradation) and suppliers (price cuts). How these stakeholders affect, and are affected by, M&A activity cannot be anticipated if the focus is on a single stakeholder (shareholder) or outcome (financial returns). Stakeholders often resist, even derail, M&A deals due to insufficient anticipation, appreciation and flexibility around stakeholder concerns. It is not uncommon that shareholders vote deals down, employees protest, senior managers resist, regulators intervene and competitors react, to cite a few stakeholder disruptions I have observed in my journalistic career

This lack of stakeholder engagement in M&A activity inspired me to expand my knowledge and skills beyond journalism's narrow analysis and headline-grabbing confines to delve deeper and more analytically into researching the why, what and how of M&A activity and thus contribute to a body of knowledge beyond news or simplistic views. A thesis facilitates the space, method and guidance to explore with significantly greater depth.

I was also motivated to apply and expand my professional skills to such a research project. First, I am well versed in collecting information and conducting interviews, then sorting these and writing. Second, as a journalist, I am skilled at "listening" to the data and thus minimising biases – reading intelligently and critically, engaging interviewees respectfully, curiously, open-mindedly and writing with integrity to the evidence. Third, I was able to draw on a network of source contacts in the M&A sector.

As Creswell (2013) suggests, this personal background, context and understanding helps the audience understand the topic, setting, participants and the researcher's interpretation of the phenomenon. These personal factors motivating my thesis journey are also inspired by the public interest in, and relevance of, M&A activity.

2.3 Public interest

This examination of stakeholder group relationships around M&A activity is timely and motivated against a backdrop of a widespread questioning of the desirability and sustainability of the market economy and concerns around corporate behaviour and the societal role of business (e.g. Norman, 2018; Winston, 2019; Dimon, 2020; Fink, 2020; Thomson, 2020). Conducted before the coronavirus pandemic, the 2020 Edelman Trust Barometer Trust (2020) revealed a robust global economy. Despite near full employment, a majority of respondents in developed markets (56%) thought capitalism in its current form is doing more harm than good. Public concern that market concentration, driven mostly by M&A (Triggs and Leigh, 2019), is leading to damaging corporate activities and power is arguably unprecedented.

Australia, for example, has witnessed over the past years a public and political outcry against corporate greed and power with M&A activity featured prominently. Numerous high-profile official investigations into core sectors of the Australian economy highlight the societal implications of M&A activity. First, the 2017–2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne (2019) supported calls for the Australian Competition and Consumer Commission (ACCC) to undertake five-yearly market studies on the effect of vertical and horizontal integration in the financial system. Second, the ACCC's Retail Electricity Pricing Inquiry (ACCC, 2018) recommended actions to help reduce electricity prices, including a cap on mergers that prevents any merger that results in a market share of 20% or more in electricity generation. Third, the ACCC's Digital Platforms Inquiry (ACCC, 2019) into tech giants, including Google and Facebook, found acquisitions of potential competitors have contributed to their market dominance. The ACCC recommended the large digital platforms agree to a protocol to notify the ACCC of proposed acquisitions that may impact competition in Australia. These investigations have all drawn the link between M&A, corporate power and weakening competition, powering debates and activism against corporations failing to serve the interests of society.

Concerns about concentration and market power in the hands of too few is not an Australian phenomenon. Arguing profits are "too much of a good thing" *The Economist* (2016) noted that, since 2008, American firms have engaged in one of the largest rounds of mergers in their country's history, worth USD10 trillion. Unlike earlier mergers aimed at building global empires, these mergers were aimed at consolidating in America, allowing the merged companies to increase their market shares and cut their costs. *The Economist* article writes that "An intense burst of consolidation will boost their profits more". It argues that profits are an essential part of capitalism, giving investors returns, encouraging innovation and signalling where resources should be invested. But high profits across an economy can be a sign of sickness in signalling firms siphoning wealth rather than creating it. This can lead to a shortfall of demand and deepen inequality as the pool of income to be split among employees could be squeezed, and consumers might pay too much for goods. Similar concerns are widespread, supported by prominent global institutions, economists and acknowledged by corporates themselves (Economist, 2016).

The International Monetary Fund (IMF) highlights "in advanced economies, rising corporate market power has been blamed for low investment despite rising corporate profits, declining business dynamism, weak productivity, and a falling share of income paid to workers" (Diez *et al.*, 2018, p. 1). Its research finds markups among advanced economies have significantly increased since the 1980s mostly driven by "superstar" firms that managed to increase their market power. The IMF notes the link between markups and investment and innovation is more strongly negative in industries featuring higher degrees of market concentration. It also finds higher market power decreases the share of firms' revenue going to workers while the share of revenue going to profits increase. In Australia, research finds that mark-ups have increased "massively" among large listed firms over the past two decades. Those industries with more market concentration have a lower wage share, industries are excessively concentrated, anti-competitive conduct is rife, consumers treated poorly and many markets show signs of weak competition (Triggs and Leigh, 2019).

Furthermore, economists link market concentration and corporate power to inequality. At the core of Galbraith (1956, p. 7) "countervailing power" argument is that amassing corporate power through M&A and its exercise through mark-ups exacerbates income inequality: "Large corporation can have significant power over the prices it charges, over the prices it pays, even over the mind of the consumer whose wants and tastes it pertly synthesises". Increasing market power and persistent higher rates of return to capital than seem consistent with competition play a role in growing inequality in that such "monopoly rents" come at the expense of consumers and workers (Stiglitz, 2017, p. 3). The massing of economic power "almost inevitably" leads to an agglomeration of political power "which can and typically does reinforce the agglomeration of economic power" (Stiglitz, 2017, p. 4). Concentrated markets are not solely responsible for rising inequality but have played a part in the steady rise in inequality over the past generation (Leigh and Triggs, 2016).

Economically, there are other good reasons to believe that reduced competition and increased monopoly power are imperfect for the economy (Krugman, 2016). Increasing concentration of ownership means the fruits of economic growth are hoarded (Economist, 2016). Competitive pressure is key to economic performance by pushing prices towards costs, moving resources to their best uses and stimulating innovation. Still, there is concern that competitive pressure is not working as it should (Minifie, 2017). Lack of competition can contribute to "secular stagnation" in which an economy tends to be depressed much of the time, feeling prosperous only when spending is boosted by unsustainable asset or credit bubbles (Krugman, 2016). Monopoly power results in higher profits, lower investment as firms restrict output, and lower interest rates as demand for capital falls below what we have seen in recent years (Summers, 2016).

In democratic societies where community expectations influence policies, companies are responding to the growing concern about, criticism of and hostility toward corporate power. For instance, in 2019, the Business Roundtable, representing the chief executives of 181 of the world's largest companies, notably declared that the purpose of a corporation is not just to serve shareholders (their official position since 1997) but "to create value for all our stakeholders" (Roundtable, 2019). In a "significant shift" (Durkin, 2019), following member consultation around governance practices and standards, the Australian Institute of Company Directors (AICD), the peak advocacy body for directors, in 2019 decided (Directors, 2019) to stress the importance of considering non-shareholder interests when fulfilling director duties (but stops short of calling for legal changes in framing directors' duties (Dealreporter, 2019). Shareholder primacy, the core operating principle of public companies for about 50 years since economist Milton Friedman famously declared "the social responsibility of business is to increase its profits", is being challenged (Winston, 2019, p. 1).

Influential corporate executives involved in M&A activity are also expressing concern around shareholder primacy and the social role of business. For example, Larry Fink (2018, p. 1), chairman of the world's largest fund manager BlackRock (US$7 trillion in assets) argues that "society is demanding that companies serve a social purpose … Companies must benefit all of their stakeholders". Also, Jamie Dimon (2020, p. 1), chairman of JPMorgan Chase, the largest US bank (assets of USD2.7 trillion), is concerned that

> capitalism may be at a tipping point. For too long, policymakers, governments and business leaders have done a poor job of helping those who have been left behind, and lost sight of how capitalism can create more opportunity for all … Many businesses are rethinking their role in society … Capitalism must be modified to do a job of creating a healthier society, one that is more inclusive and creates more opportunity for more people.

Such views are significant for M&A activity, decisions, discussions and possible trends as Blackrock and JPMorgan hold influential positions in the global M&A advisory and investment world.

Winston (2019) highlights four reasons why business leaders are feeling pressure to rethink the role of business in society. First, social norms are changing, and employees, customers and investors have higher expectations. Second, there is growing realisation that a focus on one key stakeholder is flawed. Third, investors are increasingly pressing companies to focus on their purpose and how they contribute to society. Fourth, business is feeling the global challenges of climate change, growing inequality, resource scarcity and environmental damage. As Winston (2019, p. 3) argues: "Companies are increasingly expected to play a positive role in society and take responsibility for the broader effects of their actions and products". Research showing an overall positive association between an acquirers' stakeholder orientation and acquisition performance suggests an M&A focus on why business leaders are feeling pressure to rethink their societal role (Bettinazzi and Zollo, 2014).

While the evidence is yet to emerge, the coronavirus pandemic could intensify such pressures on management and the market economy. The economic devastation wrought by the coronavirus pandemic is the latest blow to the demise of capitalism (Kaufman, 2020). One response to the coronavirus pandemic is big tech using its "moneybags and muscle" to stifle competition by buying more enterprising rivals (Economist, 2020). Traditional value drivers have been shaken by the pandemic and new ones are gaining prominence, making it possible that the gulf between what markets value and what people value will close (Carney, 2020). After decades during which economic growth was the main criterion for planners and their planning, the political and moral dimensions of human affairs have come back to the forefront of our societies (Illouz, 2020).

The concerns discussed above around market concentration, corporate power, inequality and the societal role of business motivate this thesis. These concerns are widespread and not confined to anti-business sentiment. This chapter has highlighted a few examples of pro-business groups responding to such matters – official inquiries, the financial media, global institutions, economists and corporates themselves. The concerns partly reflect a failure of M&A, which, in a capitalist-oriented and stock market-based economy, is a core means for corporate asset accumulation, expansion and power contributing to the various disruptions described. In this context, M&A is of interest to the broader public and has public relevance that needs to be made more explicit.

2.4 Summary

The examination in this thesis of stakeholder group relationships during an M&A process is motivated by personal interest and involvement in M&A (Chapter 2.2), and M&A viewed as a consequential public interest phenomenon (Chapter 2.3). This is against a backdrop of questioning the desirability and sustainability of the market economy and concerns around market concentration, corporate power, inequality and the societal role of business.

3 Literature review

3.1 Introduction

This literature review chapter briefly summarises and connects gaps in the literature linking M&A and stakeholder research that have been identified in the four thesis articles (Chapter 3.2). To understand the context of stakeholder relationships around M&A activity I review the literature that has focused on the public (as opposed to stakeholder) consequences of M&A activity (Chapter 3.3), including M&A motivations, competition concerns, M&A performance and the social, economic and political implications and processes of M&A activity. Chapter 3.5 highlights critical research gaps identified from the review of the literature.

3.2 Summary of literature in thesis articles

The structured literature review (SLR) in Article 1 (Segal *et al.*, 2020a) (Appendix 1) examines the advances made in the literature towards linking M&A and stakeholder research. From the literature review, it emerges that M&A activity is mostly considered as unidirectional in its effect on stakeholders. In taking a unidirectional focus, the literature largely ignores stakeholders' effect on M&A activity and falls short in investigating inter- and intra- stakeholder group relationships, failing to explore the complexity of the web of relationships between various stakeholder groups and M&A activities. This gap suggests an opportunity to develop a more comprehensive understanding of the stakeholder implications of M&A activities.

Article 2 (Segal *et al.*, 2020b) builds on the SLR, reviewing literature that identifies public concerns about M&A activity as including market concentration, power and economic inequality, highlighting corporate responses to challenges to shareholder primacy. I also point to opportunities to examine stakeholder relationships around M&A activity as multi-directional, between and among stakeholders. Literature overviews of M&A research underscore the lack of a stakeholder focus. Indeed, stakeholder *relationships* have not been adequately explored in the literature linking stakeholder and M&A research. A need to address how conflicting stakeholder relationships are incorporated into an analysis of an M&A activity is developed.

Articles 3 and 4 also draw on the SLR. These articles respond to the management implications of the research question developed in the SLR, namely, how was Tatts and Tabcorp's stakeholder management affected by, and how did it affect, the merger process?

3.3 Public consequences of M&A activity

3.3.1 M&A motives

Academic research has put forward several motives to explain why firms undertake M&A. Writing some 50 years ago, Hogarty (1969) observed that the bulk of academic research explaining the motives behind M&A relied on two principal factors: the desire for monopoly power; and the improved operating efficiencies of the acquired firm. He argued that if an M&A event produces a monopoly, the merged firm will be more profitable than its parts. The same is true of firms that prior to the M&A event were below the minimum efficiency size for their industry. In contrast, the M&A event may reduce costs (production, distribution, etc.) or lead to monopsony instead of monopoly power. Research into the motivations driving M&A has evolved into a significant field.

Researchers have also put forward different groupings to explain what drives M&A. For instance, Tichy (2001) identifies the synergies hypothesis (efficiency-increasing power through exploiting synergies or growth opportunities); corporate-control hypothesis (management or organisation); hubris hypothesis (manager belief that they can manage the target); free cash flow hypothesis (managers make investment decisions rather than shareholders); empire-building hypothesis (managers act to gain personal advantages); diversification hypothesis (diversification of risk); market power hypothesis (market share and price-setting powers); disturbance hypotheses (reaction to changes in the environment such as technology or deregulations); or defensive hypothesis (acquisitions competitor policy).

Other researchers identify group efficiency, monopoly, raider valuation, empire building, process and disturbance theory (Trautwein, 1990); synergy, agency and hubris (Berkovitch and Narayanan, 1993); vague strategic benefits, creation of unique capabilities, the achievement of competitive scale, or because two organisations or CEOs are exceptionally friendly (Bruner, 2002); acquiring external knowledge (rather than risky and costlier internal innovation) as technology becomes increasingly essential (Kennedy *et al.*, 2002); and diversification, tax considerations, management incentives, the purchase of assets below replacement costs and break-up value (Mukherjee *et al.*, 2004). It is beyond the scope of this thesis to discuss the extensive debates around such motives in M&A activity. They are presented as a backdrop to contextualise the examination of the broader consequences of M&A that this thesis undertakes.

3.3.2 Competition debate

Debates around the public consequences of M&A activity have evolved into conflicting schools of thought on competition between the Industrial Organisation, Chicago and Post-Chicago schools.

Industrial Organisation School: As outlined by Triggs and Leigh (2019), up to the 1970s, the dominant school of economic thought on competition between firms was the Industrial Organisation School. This school viewed competition and markets as being determined by the industry structure where an industry with few competitors was assumed to be less competitive than an industry with many competitors. Concentrated markets made it easier for cartels to form and block new entrants through predatory pricing practices. Also, in using their bargaining power against consumers, suppliers and workers, firms are able to hike prices, cut wages, degrade service and reduce quality while maintaining profits.

Chicago School: The views of the Chicago School, which emerged in the 1970s, diverged starkly from the views of the Industrial Organisation School. Triggs and Leigh (2019) explain the Chicago School as rooted in faith in the efficiency of markets where firms trying to charge higher prices are punished by competitors taking their market share and underpinned by minimal government intervention. Contemporary thinking rejects the central tenets of the Chicago School on the basis that even competitive markets are not efficient; they are not in general competitive and inequality matters (Stiglitz, 2017). Krugman (2016) argues that a "new doctrine, emphasising the supposed efficiency gains from corporate consolidation, led to what those who have studied the issue often describe as the virtual end of antitrust enforcement". For the Chicago School "market concentration was more of a virtue than a vice … market concentration was not regarded as a sign of market power. It was rather the result of superior efficiencies" (Triggs and Leigh, 2019, p. 697).

Post-Chicago School: Triggs and Leigh (2019) note that the Industrial Organisation School tended to block mergers of firms that possessed small market shares even if they led to provable efficiencies. The Chicago School conceptualised mergers as positive and requiring intervention only to oppose horizontal mergers that were large enough to create monopolies directly. The Post-Chicago School emerged from the late-1980s in an attempt to find a middle ground between the Chicago and Industrial Organisation schools. This school is focused less on theory and more on application. McMahon (2006, p. 808) argues that this "approach is characterised by a richer factual analysis of individual cases and the application of more complex rules based on strategic models rather than reliance on more theoretical models and per se tests".

In the Australian context, Triggs and Leigh (2019) state that the Chicago School has had a powerful impact on Australia's courts, legislators and regulators and it has "helped shape the poor state of competition in Australia and, most alarmingly, has contributed to rising inequality". Under its 2008 merger guidelines, the Australian Competition and Consumer Commission (ACCC, 2017b, p. 1) has "an increased emphasis on the competitive theories of harm and the effect of constraints, which facilitates a more integrated analysis". The ACCC recognises M&A is "important for the efficient functioning of the economy" in that "they allow firms to achieve efficiencies, such as economies of scale or scope, and diversify risk across a range of activities. They also provide a mechanism to replace the managers of underperforming firms" (ACCC, 2017b, p. 2). The ACCC finds in the "vast majority" of mergers, sufficient competitive tension remains to "ensure" that consumers and suppliers are no worse off. The

ACCC (2008, p. 2) stated that indeed “in many cases, consumers or suppliers benefit from mergers. In some cases, however, mergers have anti-competitive effects. By altering the structure of markets and the incentives for firms to behave competitively, some mergers can result in significant consumer detriment.” The ACCC’s current merger guidelines acknowledge that efficiencies may constitute a public benefit, but emphasise that it needs to be sure that this “outweighs the public detriment from the substantial lessening of competition” (ACCC, 2017b, p. 49).

3.3.3 M&A performance

In assessing the public consequences of M&A activity, there is a notable absence of a stakeholder emphasis in M&A performance research. There are few studies of how mergers fail because of the difficulty of accessing cases and objective and freely shared perceptions from stakeholders who tend to avoid speaking about failure (Thelisson, 2020). Despite being among the most researched areas in M&A studies, reviews of M&A performance find there is little agreement among researchers how to measure M&A performance (Tichy, 2001; Bruner, 2002; King *et al.*, 2004; Tuch and O'Sullivan, 2007; Haleblian *et al.*, 2009; Bettinazzi and Zollo, 2014; Li, 2015; Yaghoubi *et al.*, 2016).

What is broadly agreed is that M&A performance studies are led by accounting and finance measurements and concepts (Lubatkin, 1987; Datta *et al.*, 1992; King, 2001; Bruner, 2002; King *et al.*, 2004; Cartwright and Schoenberg, 2006; Tuch and O'Sullivan, 2007; Zollo and Meier, 2008; Haleblian *et al.*, 2009; Meglio and Risberg, 2011; Das and Kapil, 2012; Thanos and Papadakis, 2012; Agrawal and Jain, 2015). This shareholder-centric focus largely ignores M&A performance implications for other stakeholders.

Some research is found outside this shareholder-centric M&A performance research. Several examples include calls for developing multiple measures of firm performance to document the complete performance implications of M&A (King *et al.*, 2004); closer links between M&A performance models adopted in the finance and strategy literature with the human and organisational insights from behavioural studies (Cartwright and Schoenberg, 2006); simultaneous use of multiple measures to unveil the mysteries of M&A performance (Zollo and Meier, 2008); theoretical integration to synthesise contributions from each discipline (Haleblian *et al.*, 2009); a motive-linked multi-dimensional performance model that combines measures of accounting performance, market performance and other operational characteristics (Das and Kapil, 2012); and a more pluralist approach with integrative frameworks that reflects the multidisciplinary nature of M&A (Gomes *et al.*, 2013). Yaghoubi *et al.* (2016) identify factors to assess M&A performance as characteristics around the acquirer, target, bid, industry and macro-environment. Tichy (2001) questions whether objectives to measure M&A performance are logical, as the typical M&A does not exist. Most M&As have widely diverging effects because of their different forms and motives.

Other scholars focusing on M&A within a stakeholder paradigm point to further complications about measuring M&A performance. For instance, Lamberg *et al.* (2008) note a numbers-logic oriented tradition of business planning is unable to suggest how stakeholders will react when a major organisational transition, such as M&A, takes place. Anderson (2013) questions the terminology used, asking whether more open-ended, less definitive terms such as “benefits” and “sacrifices” are preferable to the binary concepts of “success” and “failure”. Despite working within a stakeholder paradigm, these scholars to do not address how to gauge the public implications of M&A activity.

3.3.4 Social, economic and political implications of M&A

The public consequences of M&A activity can be reframed around social, economic and political consequences. As “socially constructed arenas”, M&A activities can be understood as a "social drama that reveals underlying social issues of conflict, power, and status" (Schneper and Guillén, 2004, p. 266). Others locate M&A as both a cause and consequence of globalisation (Faulkner *et al.*, 2012; Meglio, 2019). According to Faulkner *et al.* (2012, pp. 6, 7), “As a vector of globalisation, M&A has played a critical role in changing the modern societal landscape … If M&A is to remain a much-used strategy to thrive in a globalising competitive landscape, then this strategy should take into consideration the longer-term financial, organisational, human and societal consequences thereof”. The themes of power and politics are recognised in several M&A studies as parts of complex change events characterising M&A (Cartwright *et al.*, 2012; Meglio, 2015; Sinha *et al.*, 2015).

Constructing M&A as a social, economic and political phenomenon has been controversial and contested. For instance, well before M&A was a research field Adam Smith (2005) saw economic concentration as a distortion of the market's natural ability to allocate society's resources optimally. In *The Wealth of Nations* (Book I, Chapter X), he famously asserted that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public". Karl Marx's (2004) principle of infinite accumulation argued that as companies became monopolies and wealth disparities widen, the bourgeoisie would become their own "gravediggers" in that capitalists must continuously accumulate and extend their capital to preserve it, or competitors would destroy them. To Marx, the flip side of capital accumulation is an accompanying accumulation of misery and poverty. While these early concepts were not M&A focused, they anticipate the broader consequences of market concentration as an outcome of what would evolve as corporate M&A activity.

3.3.5 Social, economic and political processes around M&A

To contextualise M&A activity as having social, economic and political consequences, Giddens' (1984) structuration theory can usefully be used to reframe this in process terms. His "duality of structure" connects structure and agency in which the agency cannot exist or be analysed separately from its structure but only exists as a duality: "The constitution of agents and structures are not two independently given sets of phenomena, a dualism, but represent a duality … The structural properties of social systems are both medium and outcome of the practices they recursively organise" (Giddens, 1984, p. 25). This acknowledges the interaction of meaning, interests and power and posits a dynamic relationship between different facets of society – social structures have no inherent stability because they are socially constructed. Agents modify social structures by acting outside the constraints the structures place on them.

Such a dialectical view is “fundamentally committed to the concept of process” (Benson, 1977, pp. 1, 3) … “the dialectical approach places at the centre of analysis the process through which organisational arrangements are produced and maintained. The organisation is seen as a concrete, multi-levelled phenomenon beset by contradictions which continuously undermine its existing features.” These dialectical processes can be understood as social, economic and political.

3.3.5.1 Social process

Organisations are a means of social mediation (Bevan and Corvellec, 2007). Organisations – and by extension M&A activity given its centrality to organisational life – can be viewed through a social lens. Social processes take place among groups of people. They involve the formation of groups, defined[2] as the “ways in which individuals and groups interact, adjust and readjust and establish relationships and pattern of behaviour which are again modified through social interactions”. Furthermore, such stakeholder relationships cannot exist or be analysed separately from their structure (Giddens, 1984). These relationships are socially constructed, not objective, reality that exist as a duality (Mitchell *et al.*, 1997). As “socially constructed arenas” M&A activities are "social drama that reveals underlying social issues of conflict, power, and status" (Schneper and Guillén, 2004, p. 266). Stakeholder interests may be damaged during M&A, and social harms may follow (Waddock and Graves, 2006).

3.3.5.2 Economic process

An economic process is “any process affecting the production and development and management of material wealth”.[3] The economic sphere is more than the struggle over scarce resources in a market economy, rather “The sphere of the economic is given by the inherently constitutive role of allocative resources in the structuration of societal totalities” (Giddens, 1984, p. 34). For Keynes, economics was not a science of dollars and cents, interest rates and inflation but about the way people think and live

[2] http://www.yourarticlelibrary.com/sociology/social-processes-the-meaning-types-characteristics-of-social-processes/8545
[3] TheFreeDictionary.com

(Carter, 2020). According to (Blonigen and Pierce, 2016, p. 2) “Perhaps the most fundamental issue is the potential trade-off between increased market power versus efficiency gains in the wake of an M&A transaction”.

3.3.5.3 Political process

With organisations a means of social mediation, management is politics at the scale of the organisation (Bevan and Corvellec, 2007). When stakeholders use power to affect the organisation, then the focus is on political processes such as influence and bargaining, and their interrelationship requires examination (Winn, 2001). Stakeholder theory accommodates an understanding of the way in which political mechanisms, not market mechanisms, determine the allocation of scarce resources to alternative uses (Friedman, 2007). As political processes, scholars have mainly dealt with M&A as internal power struggles without examining their external power dynamics and their influences over performance (Meglio, 2015). Power and politics themes are implicitly recognised in M&A study and form parts of the complex change events characterising M&A. Despite their integral role they have not been fully explored (Cartwright *et al.*, 2012; Sinha *et al.*, 2015).

Giddens (1984, p. 34) defines a political process as “to do with the ordering of authority relations”. Most definitions of power derive from the Weberian idea that power is "the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance" (Weber, 1947, quoted in (Mitchell *et al.*, 1997, p. 865). Studies indicate a need to take seriously the politics involved in M&A decision making because even if stakeholders refrain from ‘politicking’ or ‘manoeuvring’, they bring their points of view, which may or may not gain support or legitimacy (Vaara, 2003). Power inequalities and political gamesmanship are parts of the complex change events characterising M&As that have not been fully explored in the literature (Stahl *et al.*, 2013). As Stahl *et al.* (2013) note, all M&A activity involves politics (defined as actions for obtaining power or influence), as key stakeholders jockey to represent their interests, yet despite widespread agreement on the centrality of politics and power games few studies have provided insights into these concerns or explored how these tensions affect M&A outcomes.

3.4 Calls for research

These various research gaps highlighted in the M&A literature have inspired my research. They can be summarised as follows. First, Faulkner *et al*. (2012, p. 7) ask "is it possible to move to a view of M&A that is long-term, sustainable, and takes into account the interests of relevant corporate, societal, local, and within-firm stakeholders?" Second, there are calls in the literature for process studies in M&A (Lamberg *et al.*, 2008; Meglio, 2015). Third, there is criticism that contextual circumstances and stakeholder relationships in M&A are typically analysed in isolation and need to be understood as such to understand the stakeholder implications (Meglio *et al.*, 2017). Fourth, there are calls to reflect the way M&A success or failure is considered by going beyond a managerial perspective to define success and failure (Anderson, 2013) and to consider relationships between critical success factors as nonlinear (Gomes *et al.*, 2013). My thesis aims to respond to such questions and calls by considering the broader stakeholder implications surrounding M&A events. I seek to understand M&A as a fluid process by using a case study of an actual merger process. Doing so provides context of stakeholder relationships during a merger process by explicitly discussing the impact of the merger process in terms of the stakes of multiple stakeholders.

3.5 Summary

In this chapter, the literature gaps in the four thesis articles are summarised and connected (Chapter 3.2) and the literature around the public consequences of M&A activity reviewed (Chapter 3.3) according to M&A motivations, competition concerns, M&A performance and the social, economic and political implications and processes of M&A activity. Chapter 3.4 notes the critical research gaps highlighted in the literature that motivate this thesis.

4 Industry background

4.1 Introduction

This chapter provides background to the case study in this thesis, that is, the Australian wagering industry, and its integral role in the country's social, economic and political fabric. In Article 2 (Segal *et al.*, 2020b), I explain the research relevance of the merger process leading to the $11 billion mergers between Tatts and Tabcorp, the organisations that dominate the Australian gambling entertainment industry. In Article 4 (Segal, 2020) I outline the background leading to Tatts and Tabcorp merging. What remains for this chapter is to understand the historical development of Australia's wagering industry (Chapter 4.2) and the role of the three stakeholder groups most closely associated with this development (Chapter 4.3).

4.2 Australia's wagering industry

Diverse contextual factors have influenced the character of Australian gambling; the way it fits into society; its effect on leisure patterns, economic activity and community attitudes; and how it is shaped by government policies (Victorian Casino and Gaming Authority, 1999). Compared to the moralistic and prohibitive regimes in Britain and the United States, Australia has adopted a relatively liberal approach to gambling: "Gambling has been identified as an essential feature of Australia's popular culture which makes significant contributions to state government revenues" (Victorian Casino and Gaming Authority, 1999, p. i). The historical influences on Australian gambling include social values and community attitudes, religious beliefs, debates over public morality, cultural practices and preferences, and class and gender differences (Victorian Casino and Gaming Authority, 1999, p. i).

Four significant periods have transformed and redefined Australian gambling (Victorian Casino and Gaming Authority, 1999): colonisation (1788–1900), selective legalisation (1900–1940s), government endorsement and market growth (from the Second World War to the 1970s); and, since the 1970s, commercialisation, competition and market expansion (Victorian Casino and Gaming Authority, 1999, p.

i). Each period has been characterised by particular social, economic and political patterns and concerns, which have created a climate for change (Victorian Casino and Gaming Authority, 1999, p. i). The contemporary Australian gambling industry is relatively mature with annual growth over the past ten years broadly in line with Australia's 3% annual economic growth (Tatts, 2017, p. 152).

This thesis is focused on wagering, given it is the sector in which Tatts and Tabcorp, the subject of the case study, were both significant participants before merging. In FY15 turnover in Australia's wagering (racing and sports betting) market was $24.8bn and lotteries turnover $6.1bn out of total gambling industry turnover of $192bn. Wagering expenditure – turnover less winnings – was $3.6bn and lotteries expenditure $2.3bn out of $22.7bn in total gambling expenditure (Queensland Government Statistician's Office, 2016, pp. 1,4). Australia's wagering industry is associated with the racing industry. Payments received from wagering businesses are the primary source of funding for the racing industry with product fee contributions the majority of racing industry funding (Tatts, 2017, pp. 162-163).

4.3 Stakeholder groups

The three stakeholder groups most closely associated historically with the development of Australia's wagering industry are suppliers of wagering products – some of which are also competitor stakeholders to Tatts and Tabcorp, governments and customers. The rest of this chapter highlights the influence of these groups in the wagering industry.

4.3.1 Racing industry (suppliers of wagering products)

There are three leading suppliers of wagering products – state Totalisator Agency Boards (TABs), bookmakers (corporate and on-course) and the Betfair betting exchange (Freeman, 2017). These supplier stakeholder groups – identified in the thesis articles as the racing industry – are now explained.

4.3.1.1 TABs (Totalisator Agency Boards)

Horseracing was the first form of organised gambling in Australia with a totalisator introduced by the 1890s. With the development of telephones and radio broadcasting, illegal off-course Starting Price betting proliferated during the 1930–1960s, creating problems of corruption and depriving governments of revenue (Victorian Casino and Gaming Authority, 1999, p. iii). In the early 1960s, Australia's state and territory governments created state-based on-course 'totalisators' (TABs), automated systems that run pari-mutuel wagering, to counteract illegal betting and to capture a potentially lucrative revenue stream by taxing betting proceeds (Victorian Casino and Gaming Authority, 1999; Hoye, 2005). By the 1970s, betting was the most popular form of gambling in Australia, generating massive gambling-tax revenues for state governments (Victorian Casino and Gaming Authority, 1999, p. iii).

The racing industry supported the introduction of TABs to counter the potential corruption that illegal off-course betting could bring to the racing industry (Hoye, 2005, pp. 85,86). The Victorian TAB was the first TAB established in 1961. It resulted from a 1959 Royal Commission which found that of the proposed methods for regulating off-course wagering, the TAB would be best placed to protect the integrity of the racing industry and generate revenue for the state and racing clubs. The Northern Territory was the last jurisdiction to establish a TAB in 1985 (Hoye, 2005, p. 86). The TAB licences last for decades – the Victorian licence expires in 2024 (or 2026 if extended), the New South Wales (NSW) and Queensland licences expire in 2097 and 2098 respectively (Australian Competition Tribunal, 2017, p. 121). Almost all TABs have been privatised, starting with the Victorian TAB acquired by Tabcorp in 1994. The only state TAB yet to be privatised is in Western Australia (WA TAB) where the government in February 2020 commenced the marketing process for its sale (Government of Western Australia, 2020). Except for the WA TAB, Tatts and Tabcorp operated all TABs in Australia prior to their merger: The terms and exclusivity arrangements for each licence vary.

4.3.1.2 Corporate Bookmakers

Corporate bookmakers have licensed wagering service providers who are not permitted to provide pari-mutuel wagering services or retail wagering services. They provide derivative pari-mutuel (or 'tote derivative' or 'synthetic tote') wagering products and fixed odds wagering products. They offer online and telephone wagering services. None are licensed to accept bets in off-course retail venues, but they do accept bets from customers who are in state TAB retail venues via the internet and by telephone. TABs are essentially monopolies but compete with on-course bookmakers and with other interstate and internationally owned wagering operators that accept bets over the phone or online.

Freeman (2017) notes wagering on sports (other than racing) was illegal in Australia until the 1980s when specific sports wagering was permitted. Initially this was only through the state TABs and then by corporate bookmakers following the legalisation of internet sports wagering from the 1990s. He observes the rapid consolidation of the foreign corporate bookmakers who rushed into Australia following the legalisation of internet sports wagering from the 1990s.

On course traditional bookmakers are sole traders or small family businesses allowed to operate face-to-face as well as over the phone and internet, while 'on-course' at a racing venue. The number of traditional bookmakers has declined; for example, in Victoria, they peaked at 1,500 in 1954 to an estimated 169 in 2017 (Freeman, 2017, p. 11). Given their small number, this group is not examined in this thesis.

4.3.1.3 Betting Exchange (Betfair)

Betting exchanges, which allow customers to wager directly against each other at fixed odds, started in Australia in 2005 when the Tasmanian government licensed Betfair Pty Limited, owned by Crown Resorts Limited, to operate a betting exchange. Betfair is currently the only betting exchange operating in Australia. Any customer of a betting exchange can effectively act as an unlicensed bookmaker without being subject to the regulatory requirements of a licensed bookmaker (Freeman, 2017, p. 11). Given Betfair's minor role in the industry, it is not examined in this thesis.

4.3.2 Government

Governments are a critical stakeholder group in the development of Australia's wagering industry, which has historically been affected by the regulatory environment where enterprises "are in part dictated by the challenges and constraints posed by a state-based regulatory regime for gambling" (Hoye, 2005, p. 93). Deregulation of the national wagering market has seen the introduction of race field fees legislation across Australia, allowing racing codes in each state to charge wagering operators (including corporate bookmakers) for the use of race field information (Tatts, 2017, p. 153). Licensed wagering operators in each state/territory, including corporate bookmakers, are required to pay racing controlling bodies product fee contributions (usually based on a percentage of revenue or profit generated from wagering activities) and race field fees for the use of the racing industry's fields. Government revenue from gambling in FY15 totalled $5.8bn, of which $216m was from racing and $5.5bn from gaming Queensland Government Statistician's Office (2016, p. 256).

A state/territory licence, permit or approval is required to conduct most forms of gambling activity, with each jurisdiction determining licence fees/payments, setting licence conditions (including permissible advertising) and regulating or approving products. In addition to licence fees (whether one-off lump sum amounts, annual fees or a combination), state/territory governments impose gaming operator taxes (generally a percentage of gambling turnover or revenue with the rate often increasing progressively as turnover or revenue increases) and mandatory contributions or levies to fund government spending on community health programs (including grants, services for people affected by gambling and gambling harm minimisation programs) (Tatts, 2017, pp. 162,163).

Each state and territory has its regulatory regime regulating who may offer wagering services; the circumstances in which those services can be supplied; the maximum revenue that operators may take from wagers placed with that operator; the taxes paid on wagering services; the products that may be offered by wagering operators; and the advertising of wagering services and products (Australian Competition Tribunal, 2017, p. 120).

4.3.3 Customers

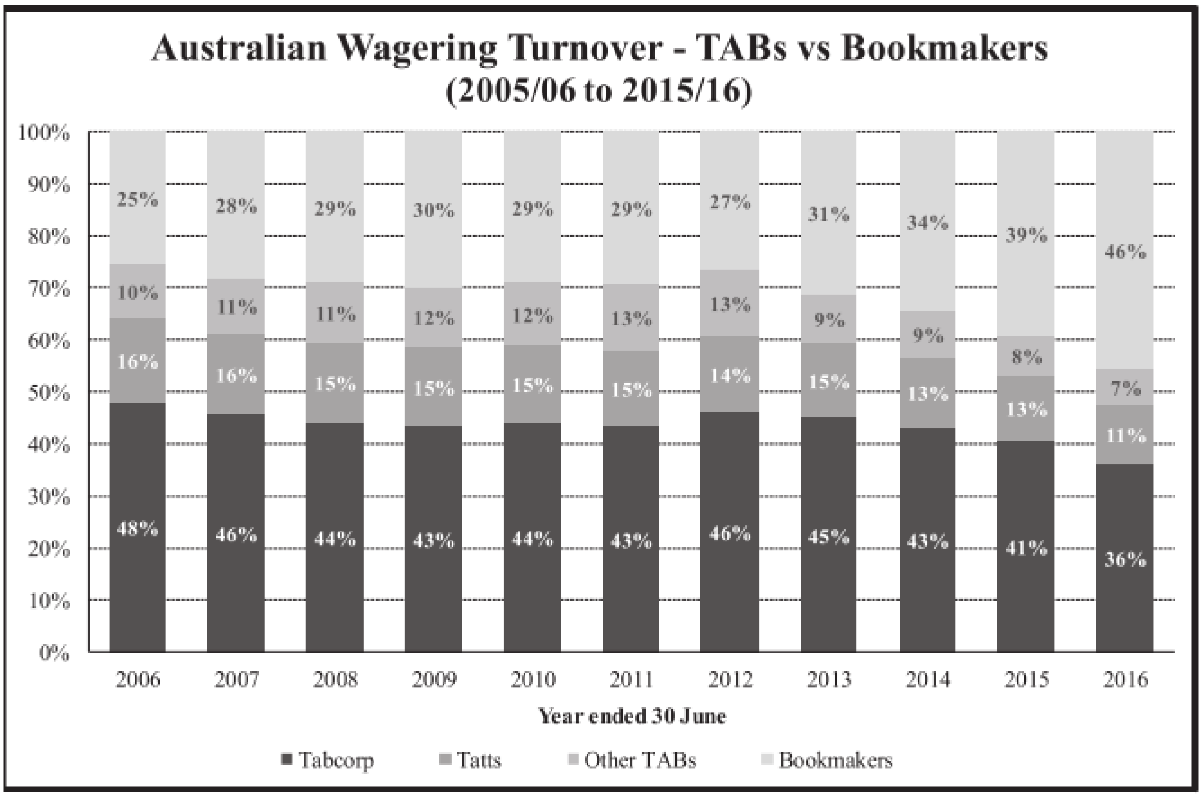
Numerous reports lay bare the structural changes in the Australian wagering industry over the past decade (ACCC, 2017a; Freeman, 2017; Tatts, 2017; Australian Competition Tribunal, 2017). Customer preferences are moving away from TABs to corporate bookmakers, away from racing to sports betting, away from traditional pari-mutuel products to fixed-odds wagering and online. These four threats to

Australia's retail wagering model – dominated by Tatts and Tabcorp – were critical factors driving Tatts and Tabcorp to merge.

4.3.3.1 TABs vs corporate bookmakers

Wagering customers are turning away from TABs to corporate bookmakers, seen in Figure 4.1.

Figure 4.1: TAB vs bookmaker wagering



Source: Tatts (2017, p. 156)

Figure 4.1 shows corporate bookmakers are estimated to account for 46% of total wagering turnover in FY16 compared to 25% in FY06, growing at an annual average 6% over this period at the expense of TABs (Tatts, 2017, pp. 154-156). TABs thus account for an estimated 54% of the total wagering market in FY16 compared to 75% in FY06. In justifying its merger with Tatts, Tabcorp claimed corporate bookmakers increased their CAGR (compound annual growth rate) turnover by 19.6% from FY11 to FY15 to represent over 40% of total wagering turnover (Australian Competition Tribunal, 2017, p. 223).

Numerous factors account for this growth in corporate bookmakers' share of wagering (ACCC, 2017a; Freeman, 2017). These are:

- technological advances including faster internet connections, the advent of smartphones, tablets and digital applications and associated increased use of online payments);
- regulatory advantages including lower state wagering taxes, limited payments to the racing industry, favourable licensing conditions and low barriers to entry;
- relaxation of advertising laws where there are no more extended restrictions to prevent bookmakers licensed in one jurisdiction from advertising their wagering services to customers in other jurisdictions over the internet or telephone.

4.3.3.2 Racing vs sports wagering

The wagering industry has also seen the growing popularity of wagering on sports and, since FY11, a decline in wagering on racing, seen in Figure 4.2.

Figure 4.2: Racing vs sports wagering

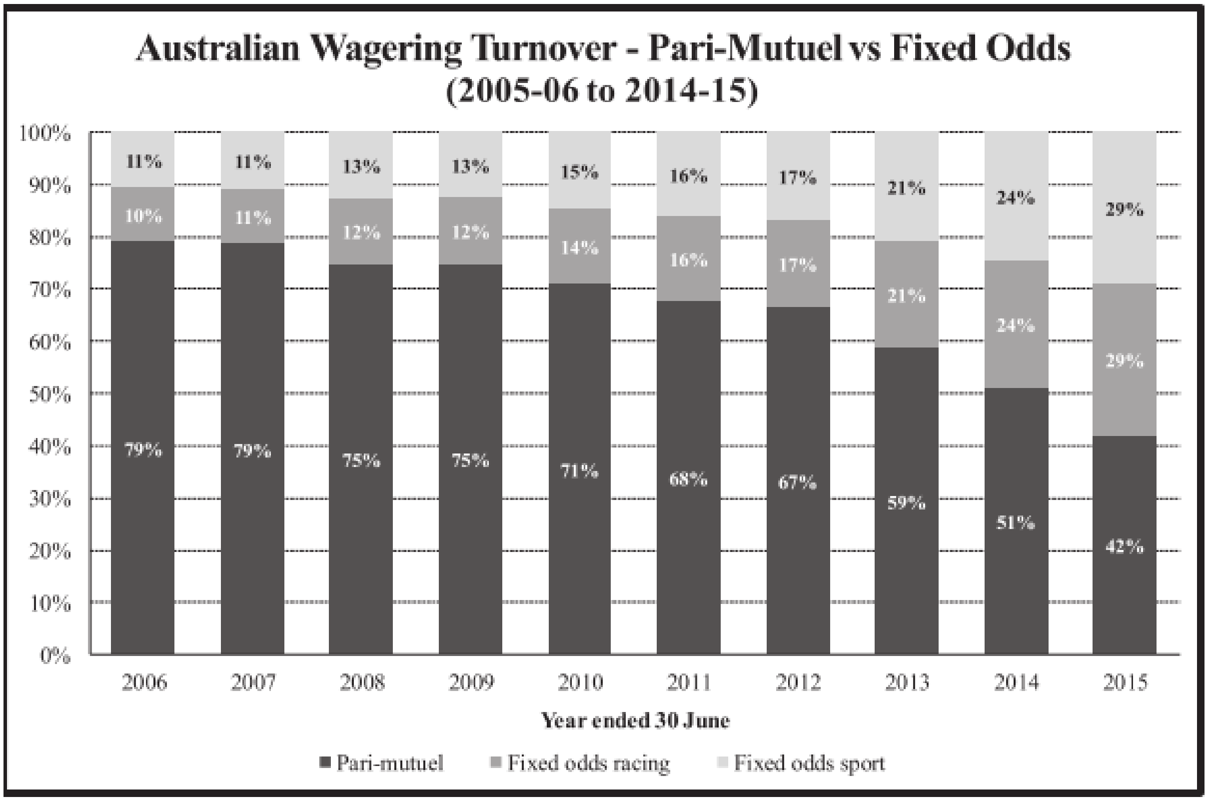
Source: Tatts (2017, p. 154)

Figure 4.2 shows sports betting grew an average annual 16% over the ten years to FY15 compared to 1% for wagering on racing, increasing its share of the wagering market from around 10% in FY06 to some 30% in FY15. Racing is still dominant with $17.6bn turnover in FY15 compared to $7.2bn on sports events (Tatts, 2017, pp. 154-156).

4.3.3.3 Pari-mutuel vs fixed-odds wagering

Given that sports wagering is almost entirely fixed odds betting, Figure 4.3 shows a shift from pari-mutuel to fixed-odds betting, from 10% of total racing wagering in FY06 to near 30% in FY15. It shows the 16% average annual growth for fixed-odds wagering and 1% average yearly decline in pari-mutuel wagering over this period (Tatts, 2017, p. 155).

Figure 4.3: Pari-mutuel vs fixed odds wagering



Source: Tatts (2017, p. 154)

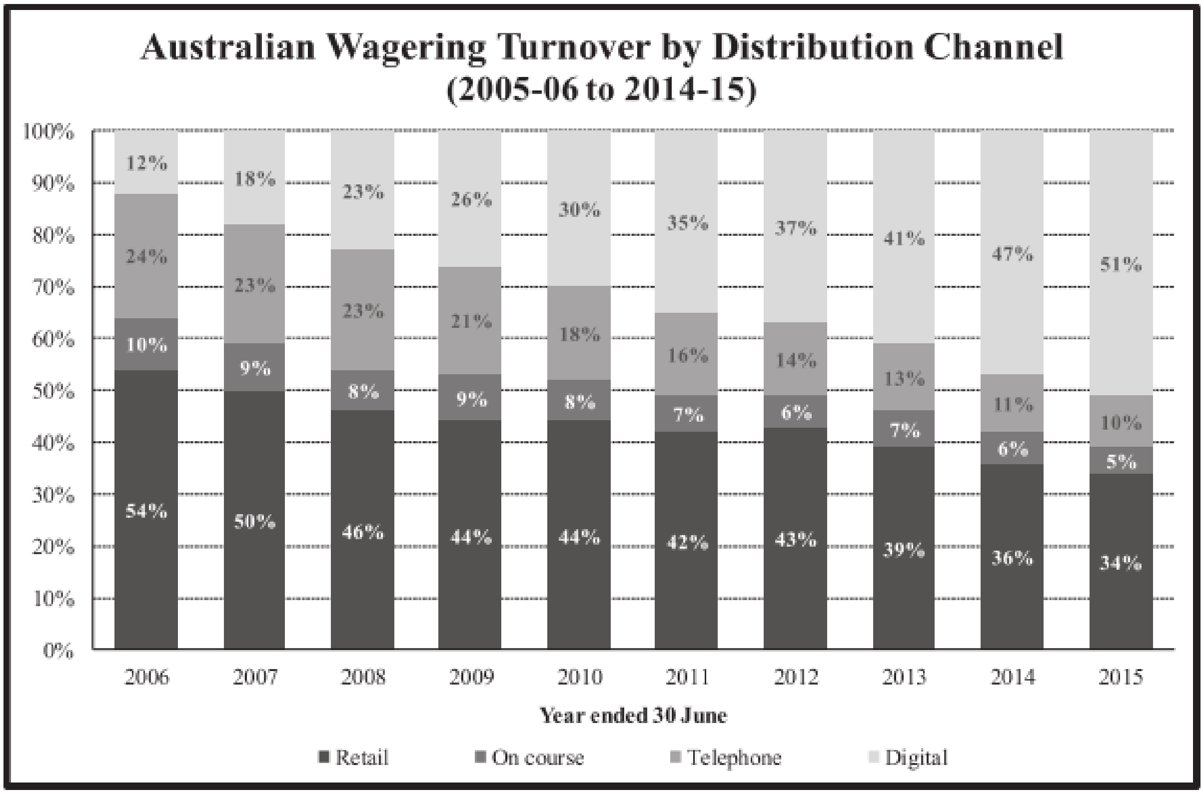
Fixed-odds wagering generates lower yields than pari-mutuel wagering, so this trend pressures operating margins of TAB licence holders, such as Tatts and Tabcorp (Tatts, 2017, p. 155). Freeman (2017, p. 192) attributes these shifts to:

- technology, in particular, the growth of smartphones and apps;
- regulatory changes in the removal of advertising restrictions arising after the 2008 Betfair decision and a favourable regulatory environment for corporate bookmakers licensed in the Northern Territory.

4.3.3.4 Retail vs digital wagering

In distribution channels, the wagering industry is shifting online through websites or apps, shown in Figure 4.4.

Figure 4.4: Retail vs digital wagering



Source: Tatts (2017, p. 155)

Tabcorp estimates that over the five years to FY15 digital wagering channels (online via websites or apps) rose from 30% to 51% of industry turnover, seen in Figure 4.4. Channel convergence is shifting from retail to digital with mobile-based online betting: “Customers now typically have multiple accounts and regularly wager with a number of wagering operators, and customer brand loyalty has decreased” (Freeman, 2017, p. 92).

The migration from traditional retail to digital distribution channels has followed digital transformation, customer preference/convenience and growth of corporate bookmakers that almost exclusively operate online. This trend has resulted in increased access and competition, leading to wagering expenditure moving from TABs to corporate bookmakers, necessitating investment by TABs in digital distribution channels and digital products to maintain their competitive position (Tatts, 2017, pp. 154-156).

4.4 Summary

This chapter described the wagering industry background against which Tatts and Tabcorp merged, highlighting its importance to Australia's social, economic and political fabric (Chapter 4.2). The focus was on the three stakeholder groups most closely associated with the wagering industry's development (Chapter 4.3).

5 Discussion

5.1 Introduction

This chapter discusses the thesis findings, particularly in terms of the thesis research question: How can we identify, understand and address the stakeholder and management implications of M&A activity? The findings and contributions of the four thesis articles are summarised and integrated (Chapter 5.2) before discussing the results and contributions of the main thesis (Chapter 5.3), shown in Table 5.1.

Table 5.1: Findings and contributions of thesis articles and thesis

Article	Findings	Contributions
1	Literature linking stakeholders and M&A is dominated by a unidirectional analysis that primarily considers the effect of M&A on stakeholders, falls short in investigating inter- and intra- stakeholder relationships and in eliciting the complex web of such relationships around M&A activity.	Develops insights, critical reflections and future research paths into how the stakeholder concept can be used in M&A research. Paved way to enrich understanding of stakeholder relationships around M&A activity (taken up in the other thesis articles) and see them as social, economic and political processes.
2	We can identify understand and address stakeholder relationship implications of M&A activity by examining balances around these relationships.	Contributes to M&A theory by demonstrating M&A activity as process outcomes of interconnected stakeholder relationships. Broadens stakeholder theory into M&A research through a balance of stakeholder concerns perspective, providing a theoretical basis for investigating the net public benefit of M&A activity. Makes explicit a new world, transforms the way of seeing, framing and understanding stakeholder relationships around M&A activity. Facilitates assessment, planning and proactive responses by demonstrating that M&A activity gives rise to stakeholder concerns quickly passed over or unnoticed by practitioners. Contributes to public policy debates about net public benefits of M&A activity.
3	Management of the various stakeholder group relationships played a critical role in mitigating potentially deal-breaking conflicts.	Shows a way to identify, understand and manage stakeholder relationships around M&A activity that accommodates the complexity, opportunities and obstacles of M&A activity.
4	Managing stakeholder group relationships during the Tatts–Tabcorp merger process involved both balancing and disempowering key stakeholder groups.	Shows how to incorporate instabilities, ambiguities, politicisation and fragmentation into M&A research. Advances from a numbers-logic tradition in M&A planning, suggesting ways to anticipate and manage stakeholder reactions to organisational transitions. Demonstrates ways to apply stakeholder theory to M&A research and management.

		Paves the way for research to enrich understanding of broader economic, social and political processes of M&A activity.
Thesis	We can identify, understand and address stakeholder and management implications of M&A activity by understanding that activity as social, economic and political processes.	Frames stakeholder relationships around M&A activity as social, economic and political processes: Theory The theoretical framework for investigating disruptions around stakeholder relationships and M&A activity and public (stakeholder) relevance of M&A activity. Brings web of stakeholder relationships, into "sight," making it something tangible that requires its own explanation. Makes explicit *how* complex stakeholder relationships played out, *how* power dynamics were managed. Praxis How stakeholders can be considered and incorporated into M&A activity. Conflicting stakeholder concerns are imbalanced and cannot be fully accommodated. Concrete meaning to stakeholder capitalism as it relates to M&A activity. Policy Feeds into a public policy debate about desirability and sustainability of the market economy and societal role of business.

The limitations of the research are then highlighted (Chapter 5.3) before offering concluding remarks (Chapter 5.4).

5.2 Findings and contributions of thesis articles

5.2.1 Article 1

5.2.1.1 Findings

The structured literature review (SLR) of Article 1 (Segal *et al.*, 2020a) aimed to reveal what we have learned about the link between stakeholders and the M&A literature, how it has changed and to develop insights into the future of research. The SLR found that the literature was:

1) dominated by unidirectional analysis that primarily considers the effect of M&A on stakeholders, not the impact of stakeholders on M&A;
2) focused on the narrow dyadic connections between stakeholders and the focal organisation, mainly ignoring other inter-stakeholder relationships;

3) oriented towards researching stakeholder groups as largely undifferentiated and homogeneous, rarely examining intra-stakeholder dynamics; and
4) lacking in eliciting more explicitly the complex web of relations between the whole (an M&A phenomenon) and the stakeholder parts of the M&A.

The subsequent thesis articles are a start towards such a future research path.

5.2.1.2 Contributions

The SLR analysis extends beyond uncovering the state of play in the literature linking stakeholders and M&A. It develops insights, critical reflections and future research paths that guide how the stakeholder concept can be used in M&A research. By expanding M&A analysis from its focus on a few stakeholders – the three dominant stakeholder groups in the SLR sample are employees/managers (22% of stakeholders mentioned in 85% of publications), shareholders (20% and 77%) and customers (14% and 56%) – to incorporate analyses from a broader stakeholder perspective the SLR paved the way to enrich understanding of stakeholder relationships around M&A activity. The three subsequent thesis articles took up this challenge.

5.2.2 Article 2

5.2.2.1 Findings

The findings in the SLR (Article 1) (Segal *et al.*, 2020a) pointed to opportunities to examine stakeholder relationships as multi-directional, involving a complex web of interconnected relationships between and among stakeholders. This was extended in Article 2 (Segal *et al.*, 2020b), which examined how to identify, understand and address stakeholder relationship implications of M&A activity. I found that regulator and racing industry relationships disrupted, and were disrupted by, the Tatts–Tabcorp merger process through four interrelated dynamics (their multidirectional, inter-group, intra-group and balance):

1. regulator and racing industry relationships during the Tatts–Tabcorp merger process were multidirectional;

2. relationships between regulators and the racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process;
3. relationships among the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process;
4. regulator and racing industry relationships during the Tatts–Tabcorp merger process were unevenly balanced.

Translating the particular to the general (Parker and Northcott, 2016), I found stakeholder relationship implications of M&A activity can be identified, understood and addressed by examining balances around these relationships.

5.2.2.2 Contributions

Article 2 (Segal *et al.*, 2020b) contributes to theory, practice and policy by taking an interdisciplinary perspective that blends the assumptions of stakeholder and M&A research and practice to bring a broader understanding of M&A processes. By re-examining stakeholder and M&A research and bringing them together, the interdisciplinary analysis broadens both disciplines. Demonstrating M&A activity as process outcomes of interconnected stakeholder relationships has relevance not only to mergers from announcement to implementation but to pre- and post-merger analysis, thus contributing to other significant areas of M&A theory (e.g. integration, performance). Stakeholder theory was extended into M&A research through a balance of a stakeholder concerns perspective and a focus on stakeholder groups in relationships (not on the relationships themselves), providing a theoretical basis for investigating the net public benefit of M&A activity. These contributions make explicit a new world, opening possibilities to transform the way of seeing, framing and understanding stakeholder relationships around M&A activity as social, economic and political processes.

For practitioners, the findings facilitate assessment, planning and proactive responses by demonstrating that M&A activity gives rise to stakeholder concerns quickly passed over or unnoticed by practitioners when focusing on the more explicit obstacles and motives of M&A activity. Understanding how a merger process has stakeholder consequences contributes to the public policy debate about the net public benefits of M&A activity at a time of rising concerns about the market economy.

5.2.3 Article 3

5.2.3.1 Findings

The findings in Article 2 (Segal *et al.*, 2020b) that stakeholder relationship implications of M&A activity can be identified, understood and addressed by examining balances around these relationships informed Article 3 (Segal *et al.*, 2019), which considered the relevance of stakeholder management to the Tatts–Tabcorp merger process. I found that by managing critical stakeholder relationships through anticipating, pre-empting and negotiating potentially deal-breaking stakeholder conflicts, the merging parties ultimately won support for the deal from nearly all key stakeholders, thus ensuring its completion. The merger process both affected stakeholders and was in no small part affected by various stakeholder groups. The article paved the way for further research into managing stakeholder relationships around M&A activity, conducted in Article 4.

5.2.3.2 Contributions

Emerging from the gaps identified in the SLR, Article 3 (Segal *et al.*, 2019) connects stakeholder and M&A research to help solve complex problems around managing stakeholder relationships during an M&A process. Viewing M&A processes in the context of fluid and dynamic relationships showed a way to identify, understand and manage those relationships explicitly. The contribution of this research lies in accommodating the complexity, opportunities and obstacles of M&A activity. It incorporates the web of defined stakeholder relationships that need to be examined and managed to ensure the implementation and success of M&A activity.

5.2.4 Article 4

5.2.4.1 Findings

Article 4 (Segal, 2020) is an extension of Article 3 (Segal *et al.*, 2019) in examining managing stakeholder relationships around M&A activity. Each stakeholder relationship can be constructed in hermeneutic terms

(Gadamer, 1976). These are a dynamic process of the whole (the merger process) and its parts (the stakeholder relationships) coming together through stakeholder management involving both accommodating and disempowering stakeholder interests. Balancing some stakeholder interests allowed the parties to weaken and ignore the concerns of other stakeholders. Managing stakeholder group relationships during the Tatts–Tabcorp merger process involved both balancing and disempowering key stakeholder groups.

5.2.4.2 Contributions

Expanding the contribution of Article 3 (Segal *et al.*, 2019) in both the scope of analysis and range of stakeholder groups analysed, Article 4 (Segal, 2020) shows a way to incorporate the instabilities, ambiguities, politicisation and fragmentation that traditional research approaches have not previously achieved (Meglio and Risberg, 2010). It also advances the numbers-logic tradition in M&A planning (Lamberg *et al.*, 2008), suggesting ways to anticipate and manage stakeholder reactions to a significant organisational transition. The stakeholder relationship framework developed facilitates the proactive management of M&A events. Differentiating types of stakeholder groups and establishing “who or what counts" can be adopted and adapted to enhance management of the social, economic and political processes involved in M&A activity. Improving understanding of the ‘intangibles’ and implicit processes associated with a merger process improves M&A outcomes for multiple stakeholders.

Article 4 (Segal, 2020) demonstrates ways to apply stakeholder theory to M&A research and management, focused on how stakeholders both affect and are affected by M&A processes. The lessons from this for stakeholder management beyond an M&A process are relevant for managing stakeholders during other forms of organisational change and disruption. A sub-text of this research is why mergers fail, showing that it is worth engaging stakeholders during a merger process and that the efficacy of this depends on the type of stakeholders and their power.

5.3 Thesis findings and contributions

5.3.1: Findings: M&A activity involves social, economic and political processes

The findings presented in the thesis articles demonstrate that the Tatts–Tabcorp merger process involved a complex web of multidirectional relationships between and within stakeholder groups. The stakeholder groups concerns were imbalanced[4] and managing them involved both balancing and disempowering key stakeholder concerns. These findings explicitly reveal that the merger process brought together the implicit parts (stakeholder groups) and the whole (the merger). The process that unfolded was far from static and smooth but ebbed and flowed through phases of disrupting, and being disrupted by, multiple stakeholder groups. Different stakeholder group relationships had different and changing roles, some implicit, some explicit, some conflicting and some complementing, throughout the merger process. These stakeholder relationship parts, which formed a whole once the merger was implemented, can be framed as social, economic and political processes by using Giddens' (1984) "duality of structure" (explained in Chapter 3.3.5.).

In the case of the Tatts–Tabcorp merger process, key stakeholders modified the merger process by acting outside the constraints of the structure (e.g. legal, capital markets) in which Australian mergers play out. By making explicit the implicit processes that occurred at the interface between stakeholders (agents) and the merger process (structure), I have been able to examine the Tatts–Tabcorp merger as one in which stakeholders disrupted the process. These disruptions go beyond a rationalist market approach focused on cost/benefit modelling. The Tatts–Tabcorp merger process cannot be fully understood by structure or agency theories alone. Instead, stakeholders were disrupted within the context of merger rules and practices produced by social structures and these merger rules and procedures were disrupted by specific stakeholders. Three key examples stand out:

[4] I use this term as defined in Vocabulory.com (https://www.vocabulary.com/dictionary/imbalanced): "A situation is imbalanced if it's not equitable or fair"

1. the modus operandi of the ACCC – a central and powerful actor in Australia's merger structure – was disrupted by the merger parties seeking authorisation from the Tribunal well before the ACCC's merger review process was completed;
2. Racing Victoria's preeminent position in the Australian racing industry (structure) was disrupted by the merging parties winning support from other stakeholders in Australia's racing industry;
3. Tatts' key institutional shareholders disrupted the board (structure) by pushing for strategic change (including merger activity).

The structure and stakeholders (agents) operated in a "duality of structure" – stakeholders could not exist or be analysed separately from the merger rules and practices (structure). The Tatts–Tabcorp merger would not have happened without these disruptions to the structure (Australia's competition merger review process, the racing industry and Tatts board). At the same time, the ACCC, Racing Victoria and Tatts shareholders disrupted the merger process in its timing, structure and outcome.

Instead of describing the Tatts–Tabcorp merger process as being disrupted by powerful, stable societal structures or as a function of the agency, the merger process has been examined as a product of the interaction of salience (Mitchell et al., 1997) and managing concerns (Savage *et al.*, 1991) around stakeholder relationships. Framing stakeholder relationships as social, economic and political processes are now discussed.

5.3.1.1 The Tatts–Tabcorp merger process as a social process

The stakeholder relationships during the Tatts–Tabcorp merger process that have been examined in the thesis articles make explicit the implicit unfolding social processes during the merger process. Relationships between and among the racing industry and regulators were examined in Article 2 (Segal *et al.*, 2020b), while Article 3 (Segal *et al.*, 2019) added relationships between and among shareholders and competitors and Article 4 (Segal, 2020) added the Pacific Consortium and advisers. The analyses make explicit the social processes involved – namely how these key stakeholders interacted, adjusted, readjusted and established relationships and patterns of behaviour during the merger process that disrupted and were disrupted (modified) through social interactions. In so doing, I reconstructed the duality of stakeholder relationships during the Tatts–Tabcorp merger process through frameworks of salience (Mitchell *et al.*, 1997) and stakeholder management (Savage *et al.*, 1991). I was able to interpret the evidence as involving social relations in the structuring of critical stakeholder group interaction, concerning the positioning of stakeholder groups within the social space of the merger process' symbolic categories and ties (Giddens, 1984, p. 89).

5.3.1.2 The Tatts–Tabcorp merger process as an economic process

As an economic process, the Tatts–Tabcorp merger process was a transformational response to concentrate resources in fewer hands in the hope of more effectively competing in an embattled and rapidly transforming gambling industry. Chapter 4.3.3 highlighted the way in which the merger process unfolded in reaction to structural changes in Australia's wagering industry with customers moving away from TABs to corporate bookmakers, away from racing to sports betting, and away from traditional pari-mutuel products to fixed-odds wagering and online.

Stakeholder relationships during the Tatts–Tabcorp merger process were formed mainly around the economic implications of the merger for stakeholders. For example, Racing Victoria's key motivation for intervening at the Tribunal was to try to secure competitive tension for its 2024 licence renewal process. Tatts and Tabcorp put extensive effort into persuading their shareholders of how the merger would enhance their investment returns. The Principal Racing Authorities (PRA's) were promised financial incentives resulting from expected synergies from the merger. The ACCC and corporate bookmakers fought to protect market competition. The finding in Article 2 (Segal *et al.*, 2020b) that key stakeholder group concerns were imbalanced are framed around wealth distribution, with those stakeholders that were accommodated benefitting economically over the medium term (e.g. Tatts shareholders, the PRAs except Racing Victoria, CrownBet). Those stakeholders that were marginalised lost economically over the medium period (e.g. Racing Victoria, corporate bookmakers except CrownBet).

The Tribunal (2017, p. 32) observed the economic process of the Tatts–Tabcorp merger as follows:

> The standard economic interpretation of 'public benefit' is based on the 'potential Pareto principle' and the effects of changes in market conditions are assessed on whether winners could potentially compensate losers and still be better off. The outcomes of perfectly competitive markets are therefore allocatively efficient because they leave no changes to the allocation of production or consumption that would allow such a 'potential Pareto improvement'. Application of this principle in competition analysis means the costs and benefits incurred by, or accruing to, firms and consumers are weighted equally... Such analysis makes no distinction between the identities of the winners and losers, nor is it concerned about the end distribution of wealth and income that arises from market processes. Those redistributive issues are considered best addressed by political processes.

These political processes during the Tatts–Tabcorp merger process that addressed redistributive concerns of key stakeholders are now examined.

5.3.1.3 The Tatts–Tabcorp merger process as a political process

The political process of the Tatts–Tabcorp merger process was primarily motivated by the redistributive issues of the economic process. Key stakeholder relationships involved the political process of defending their threatened economic interests – for example, Racing Victoria's 2024 licence renewal process, shareholder returns, PRA funding and corporate bookmaker markets. The Tatts–Tabcorp case illustrates the intentional efforts of key stakeholders to gain support for their ideas and agendas, including purposeful politicking and manoeuvring.

As a political process, the Tatts–Tabcorp merger process was deeply reflective of stakeholder group salience as outlined through relationships, involving authority relations around protecting stakeholder group interests that were both complementary and conflicted. Article 2 (Segal *et al.*, 2020b) used Mitchell *et al.'s* (1997, p. 866) typology of stakeholder salience to identify which stakeholders counted according to their power to influence a firm, the legitimacy of their relationship with the firm and the urgency of their claim on a firm. For example, applying this salience typology to the Tatts–Tabcorp merger process, it was argued in Article 2 (Segal *et al.*, 2020b) that the Tribunal and the PRAs (except Racing Victoria) had high salience and the ACCC and Racing Victoria had moderate salience.

Article 4 (Segal, 2020) applied Savage *et al.'s* (1991) diagnostic typology of stakeholder group types to categorise stakeholders according to their potential to threaten or cooperate with an organisation. Therefore most shareholders (except for a few activist shareholders) and advisors were Type 1 supportive stakeholders (non-threatening and cooperative); a few activists were Type 2 marginal stakeholders (neither threatening nor cooperative); the Pacific Consortium, Racing Victoria and Racing.com were Type 3 non-supportive stakeholders (non-threatening and non-cooperative); and the PRAs (except Racing Victoria), Tribunal, ACCC and CrownBet were Type 4 mixed blessing stakeholders (threatening and cooperative).

In more binary terms, the main "winners" through the political processes were the Tribunal, the PRAs (except for Racing Victoria), shareholders (except activists), advisors and CownBet. The main "losers" were the ACCC, Racing Victoria, Pacific Consortium and Racing.com. The political process, however, cannot helpfully be seen in simplistic binary winner and loser terms. Different stakeholder group concerns had to be managed, resulting in accommodation, compromises and marginalisation of other stakeholder groups. These stakeholder concerns became politicised in that important stakeholder groups argued and acted to promote their problems mainly through the Tribunal. The Tribunal process was a show of power and manoeuvring among and between the major stakeholders. Tabcorp poured a huge amount of resources into winning support from the racing industry (thereby overwhelming Racing Victoria and the ACCC). This included over 100 meetings with stakeholders (T1, F1, L3), transaction costs (largely advisory fees) of around $200m (or 2.5% of the $8.1bn proforma market capitalisation of the merged group) (Tatts, 2017) and a legal team of close to 80 lawyers (L5).

5.3.1.4. General finding: We can identify, understand and address stakeholder and management implications of M&A activity by understanding M&A activity as social, economic and political processes.

From these findings that the Tatts–Tabcorp merger process involved interrelated social, economic and political processes, the research question can be answered. That is, I find that stakeholder and management implications of M&A activity can be identified, understood and addressed by understanding

M&A activity as social, economic and political processes. This involves identifying, understanding and addressing stakeholder relationships as disruptive and disrupted by M&A activity through four interrelated dynamics – their multidirectional, inter-group, intra-group and balance relationships – and framing these relationships as social, economic and political processes.

5.3.2 Contributions

The contribution of the thesis is in framing stakeholder relationships around M&A activity as social, economic and political processes, previously passed over or unnoticed by researchers, practitioners and policymakers when focusing on the more overt opportunities and obstacles around M&A activity. The relevance of these processes is heightened at a time of arguably unprecedented public questioning of the desirability and sustainability of the market economy and the societal role of business. While substantial evidence is yet to emerge, the coronavirus pandemic can logically be assumed to magnify such concerns. In democratic societies where policies influence community expectations, interpreting the social, economic and political processes of M&A affects praxis and policy. The four articles and thesis body contribute to theory, practice and policy in ways that can be extended to research of other key M&A research fields (e.g. integration and performance) and provide insights that allow academics, practitioners and policymakers to develop different tools for understanding and improving M&A and corporate transition outcomes. These contributions are now highlighted.

5.3.2.1 Theory

The interdisciplinary approach adopted in this thesis and the associated articles enriches both the ethical branch of stakeholder theory (EBST) and M&A theory. It contributes to a reconceptualisation of how knowledge is formed in the M&A field by contextualising stakeholder relationships around M&A activity and creating new avenues for a more dynamic and realistic understanding of what happens among and within stakeholder relationships to influence organisational actions, reactions and outcomes around M&A activity. These theoretical contributions provide a stakeholder group relationship framework for investigating disruptions around stakeholder relationships and M&A activity and the public (stakeholder) relevance of M&A activity.

Integrating EBST and M&A theory is a rethink in M&A analysis. A stakeholder analysis has rarely been applied to M&A beyond rational financial modelling from a company's shareholder-centric perspective. M&A theory is weak in exploring stakeholder relationship processes. The evidence and observations presented in the thesis contribute a counterweight to rational decision-making models that dominate M&A research.

Such a counterweight advances M&A theory by contextualising stakeholder relationships around M&A activity, the elements of which are not always obvious, and typically analysed in isolation. According to (Burns and Collett, 2017, p. 184), "Despite the undoubted importance of M&A to stakeholders, few attempts have been undertaken to develop a method to examine M&A activity to address conflicts between the various stakeholder groups". The theoretical frameworks developed around the typologies of Mitchell *et al.* (1997) in Article 2 (Segal *et al.*, 2020b) and Savage *et al.* (1991) in Article 4 (Segal, 2020) capture the power, dynamics and processes involved in understanding and managing stakeholder relationships around a merger process. M&A theory is expanded by focusing on the interconnections of key stakeholder relationships, bringing this dialectic merger process itself, as a web of stakeholder relationships, into "sight", and making it something tangible that requires explanation.

The theoretical frameworks put forward in the thesis offer a dynamic explanation beyond simplistic claims that stakeholder relationships and their management are essential to M&A activity, and beyond the observation that decision processes are rarely rational and linear. Analysing a case study makes explicit the *how* of such claims: *how* complex stakeholder relationships played out during a merger process; *how* these power dynamics were managed during the merger process with different balances. Doing so reveals how the process of M&A decisions are an amalgam of dynamic, ambiguous and fluid events involving a range of stakeholders with multiple conflicting interests. The contribution to M&A theory is in facilitating understanding of how the process is determinant of M&A activities and outcomes.

5.3.2.2 Praxis

The praxis contribution of the thesis is in addressing how conflicting needs of stakeholders can be considered and incorporated into M&A activity. In an era where big business is being forced to rethink its societal role, I point to how practitioners can review the traditional ways of conceptualising the responsibilities of the firm. Normalising the notion of stakeholder disruption as an integral feature of M&A has specific implications for practitioners and other stakeholders affecting and affected by M&A activity. Through a historical case-study, the thesis facilitates a reimagination of the purpose and outcomes of M&A event activity for practitioners.

First, M&A activity often fails on insufficient awareness and preparation of stakeholder interpretations and concerns. My thesis understanding that M&A activity involves different kinds of stakeholder interpretations and conflicting fears which can be disruptive is novel and has implications for practitioners. These are often overlooked or unnoticed by practitioners when focusing on the more explicit obstacles and motives of the M&A process, that is, they fail to recognise the overt and covert social, economic and political processes involved in M&A activity and the work needed to create platforms from which acceptance and legitimacy can be gained. Through the thesis findings, practitioners and other stakeholders can gain new insight of how M&A activity is not linear or subject to rational modelling and is less easy to control than praxis suggests. Such insight can encourage practitioners to pay greater attention in considering and incorporating stakeholder relationship concerns in M&A activity. This would improve the exploration, execution and implementation of M&A activity. A clearer stakeholder orientation helps align their major interests and reduce conflict.

Second, for practitioners, it is instructive that conflicting stakeholder concerns are imbalanced and cannot be accommodated. The Tatts–Tabcorp case shows how stakeholder management of a merger process involves both adapting and disempowering various stakeholder interests. Balancing several stakeholder interests allows parties to take tough decisions and weaken and ignore other powerful stakeholder concerns. Such awareness facilitates anticipation of opportunities and threats in deciding on M&A activity and processes, and improves M&A outcomes for stakeholders.

Third, amid growing public questioning of the desirability and sustainability of the market economy, the stakeholder group framework can be adopted and adapted for proactive and efficient management of other radical and rapid changes in organisations. The WEF's aim at its 2020 annual meeting was to "give concrete meaning to "stakeholder capitalism" and "reimagine the purpose and scorecards for companies and governments" (Forum, 2020). By making explicit the complex web of stakeholder group relationships during a merger process, this thesis allows for a systematic and differentiated analysis of "stakeholder capitalism" in a transformation situation. Locating M&A in the broader "shareholder capitalism versus stakeholder capitalism" context allows practitioners to see and take a "big picture" perspective of M&A activity. Such a perspective is often lost in the strategising and modelling of M&A activity.

5.3.2.3. Policy

By providing an understanding of how a merger process has social, economic and political consequences the thesis contributes to the public policy debate over concerns about the public benefits of M&A activity. Australia's two key bodies that regulate M&A activity, the ACCC and Foreign Investment Review Board (FIRB), are involved in this policy debate as follows. The ACCC plays an

> advocacy role to point out that there are a number of downsides to a concentrated economy. The more the community realises this, the more the legal community will; one influences the other. Changing the law so that there is a legal presumption that those merging in highly concentrated sectors must have the SLC (substantial lessening of competition) onus of proof may also assist (Sims, 2020).

Far-reaching reforms to Australia's foreign investment framework are being discussed at present. They will be introduced in 2021 to "keep pace with emerging risks and global developments" and "deal with national security risks, strengthening compliance measures, streamlining approval processes and administrative enhancements" (Frydenberg, 2020).

The thesis contributes to this public policy debate about the desirability and sustainability of the market economy and societal role of business.

5.4 Thesis limitations

The thesis and associated articles are limited in key respects and point to areas for further research. The thesis focused on a merger process timeline and the more disruptive stakeholder group relationships. It adopts a broader rather than more in-depth look at stakeholder groups, ignores stakeholders belonging to multiple groups and examines a single case. Furthermore, the case study fits rather than lead the research question and ignores counterfactuals.

The Tatts–Tabcorp case study analysis is limited to a merger process from announcement to implementation. The connection of this process to the periods both before and after the merger is not as neatly compartmentalised as this research reflects. A post-merger analysis of how these stakeholder groups have affected, and been affected by, the Tatts–Tabcorp merger falls outside the scope of this research, which examines the merger process from its announcement to implementation. It was surprising to find stakeholder groups typically associated in M&A research with the most potential to be harmed from M&A activity – community, customers and employees – showing little interest or concern during the Tatts–Tabcorp merger process. This does not mean the merger created no harm or no benefit to these groups. The situation of stakeholder groups differs at different stages of a merger (Anderson *et al*., 2013). Seen in the broader context of M&A activity occurring in phases, these stakeholder groups' interests change. Calipha *et al.* (2010) summarise M&A phases in the literature, reflecting many researcher's categorisation of M&A activity into pre, during and post-M&A phases. Many stakeholder groups affected, and were affected by, the merger process immediately from when it was announced. For some stakeholders such as directors, the largest Tatts shareholders and advisers, this relationship was even earlier (pre-announcement). In the case of community, customers and employees, the primary impact of M&A activity occurred after the event.

Also, outside the scope of this thesis is an investigation of the lesser disruptive stakeholder group relationships around the merger process. In ignoring these stakeholder group relationships, the analysis is incomplete, although the number of such relationships is almost limitless. A decision, informed by the evidence of who were the key stakeholder groups, had to be made as to where to draw the line. The objective of the thesis is not to provide a complete analysis of relationships affected and affecting the merger but to demonstrate each part of the proposition by putting forward sufficiently persuasive evidence from the most disruptive stakeholder relationships to the merger, not denying the relevance of relationships that did not disrupt the merger process. Being non-disruptive could itself be instructive as seen in the case of consumers and employees. Such an analysis is outside the scope of this thesis for further research. The management branch of stakeholder theory advocates addressing those stakeholders that have the potential to impact on an organisation and its resources. My evidence suggests that, in Mitchell et al.'s (1997) typology, these groups had low salience during the merger process. No employer, community or customer representative group made submissions to the ACCC or Tribunal. Even when approached for this research the Australian Services Union, the only union organising Tabcorp employees, declined to participate after consulting with its branches. Future research may uncover the impact of the merger on these groups.

In focusing on stakeholder groups, the research ignores the implications for stakeholder group relationships of individual stakeholders belonging to multiple stakeholder groups. Members of stakeholder groups are often members of other stakeholder groups at the same time – an employee, for instance, can be a union member, customer, shareholder and member of a political or activist group.

A single case study prevents comparisons of different M&A processes, restricts the ability to claim more general findings and, Yin (2014) notes, opens questions around the uniqueness or artificial conditions surrounding the case. A single case is justified in Article 2 (Segal *et al.*, 2020b). In this thesis, following Yin (2014), the case study aims to be generalisable to a theoretical question and does not represent a sample nor enumerate frequencies. Yin (2014) quotes Lipset *et al*. (1956, pp.419-420): "The goal is to do a generalising and not a particularising analysis". Nevertheless, is still a limitation of the thesis.

The objective of the case study is to examine how stakeholder groups affected, and were affected by, the merger, not to test whether there were such effects. It challenges the understanding that stakeholder group relationships are unidirectional, static or linear. Heidegger would say that destroying the familiar in which we are embedded is the basis for both disclosing a typical way of understanding a merger process and is the basis upon which new possibilities of seeing the merger process can be disclosed (Segal, 2016).

5.5 Conclusion

In Chapter 2, I set out my motivations for this thesis around my interests (Chapter 2.2) and the public interest (Chapter 2.3) in M&A activity. I observed that M&A practitioners and the boards they advise have an undoubtedly strong technocratic focus around the financial, strategic and legal aspects of M&A but lack a broader stakeholder focus. My fascination with the Tatts–Tabcorp merger process has been around how understanding and managing stakeholder relationships resulted in a significant merger being implemented against powerful interests and risky odds.

My stake in the merger process was in reporting and researching this unfolding saga. The outcome was immaterial to me insofar as I would not benefit or otherwise, but I was nevertheless immersed in the dialectic process. I started this research with an understanding and perception of M&A and the stakeholder group relationships around it based on my personal experience. The immensely rewarding challenge of my research journey has been to broaden this knowledge through literature and the case study, developing findings that emerge from the research gaps and contribute to theory, praxis and policy.

To meet this challenge from where I started, hermeneutically I "dwelled" in the merger process as it unfolded both as a journalist and PhD researcher, engaging in my hermeneutic circle of repetitively understanding and interpreting. This involved reading and rereading, interviewing and re-interviewing, listening and relistening, writing and rewriting; not as exercises isolated from each other but rather informing each other as part of the hermeneutic process of back and forth enquiry towards developing findings and contributions. Like a jigsaw puzzle, as the pieces began to emerge the whole began to take shape and as the whole began to emerge it became easier to see how the parts fitted together (Segal, 2016).

For M&A activity to be more effective, M&A scholars, practitioners and policymakers need to respond to growing public doubts about the desirability and sustainability of the market economy and the societal role of business. The social, economic and political significances of M&A activity is of interest to the broader public. To understand the public interest in M&A activity is to understand the social, economic and political background and implications of such activity and the processes involved. The aim of this thesis has been to explore stakeholder group relationships around M&A activity illustrated through the process of merging Tatts and Tabcorp. In asking and answering how can we identify, understand and address stakeholder and management implications of M&A activity, I have learned that stakeholder relationships need to be understood as disrupting, and disrupted by, M&A activity through four characteristics. That is, stakeholder relationships are multi-directional, among stakeholder groups, within stakeholder groups and imbalanced. Breaking the merger process into these stakeholder relationship parts and then reconstituting them contributes to identifying, understanding and addressing M&A activity in a way that makes explicit its implicit social, economic and political processes.

The Tatts–Tabcorp merger process had broader public consequences insofar as "public" is understood in stakeholder terms and "consequences" understood in social, economic and political process terms. In highlighting the social, economic and political processes involved in the Tatts–Tabcorp merger process, this thesis contributes to contemporary understandings of a more stakeholder engaged corporate and financial world; one in which it is increasingly common to consider social, economic and political implications of corporate decisions. In democratic societies where policies influence community expectations, interpreting the social, economic and political processes of M&A directly affects praxis and policy. It follows that this thesis can influence EBST and M&A theory and is of potential interest in the way M&A activity is conducted and regulated.

In this thesis, I do not argue that M&A practitioners and policymakers ignore stakeholder relationship concerns around M&A activity. The contribution of this thesis is in developing a stakeholder relationship framework to enable practitioners and policymakers to identify, understand and address the stakeholder and management implications of M&A activity more explicitly and methodically. The framework is dynamic and thus able to accommodate the unique characteristics of each M&A activity, which vary according to organisation (operational circumstances, size, culture, motivation, etc.), geography, economic conditions and industry, among other factors.

By offering new insight into stakeholder relationships in M&A activity, the stakeholder relationship framework can guide and support practical actions that could become embedded in M&A practice and policy. Several of these practical applications are as follows.

First, more substantial director obligation requirements and enhanced training to explicitly consider stakeholder relationship implications of M&A activity. This would make it incumbent on directors to more seriously consider – and take responsibility – for stakeholder issues ahead of (while strategising), during (while executing) and after (while implementing) M&A activity. Enhancing director obligations and training would also reduce the prevalence of directors sub-contracting stakeholder issues to sustainability specialists in the organisation, thus weakening its decision-making relevance.

Second, further explicit understanding of stakeholder relationship concerns and power leads to more specific attention to strategising, executing, and implementation of M&A transactions. For example, what exact kind of activities, their impact, when, how and to what extent they should be used. Furthermore, it is advantageous to know which stakeholders are most important for planning M&A activity, for the merger process to succeed and for post-merger management and integration to avoid detrimental conflict, risk and power struggles.

Third, facilitating a further in-depth and explicit stakeholder due diligence process that would include interviewing board members, reviewing board minutes and board papers from a broader stakeholder perspective.

Fourth, enhancing requirements for greater identification, transparency and inclusion of stakeholder interests to be included in official M&A activity documents such as M&A activity announcements, bidder and target statements and scheme documents.

Fifth, holding entities that have undertaken M&A activity accountable for the M&A activity and report on the stakeholder impact and performance post-activity. Social auditing – an accounting framework used to measure corporate sustainability beyond traditional financial measures – is sufficiently developed to be usefully applied to determine and quantify the stakeholder criteria to be incorporated in the stakeholder relationship framework that the thesis puts forward. Most large Australian companies report extensively and ambitiously around sustainability concerns (typically around environmental, social and corporate governance (ESG) factors in measuring the sustainability and societal impact of corporate action) to inform their stakeholders. Although there are no 'single universally accepted' sustainability standards, there are various ESG standards available that include IFC Performance Standards, Global Reporting Initiative (GRI) Standards and the Sustainability Accounting Standards Board (SASB) Standards (Baker McKenzie et al., 2020, p. 8). Disclosure practices and frameworks are actively evolving (Brownstein et al., 2020)

Sixth, there is a role for independent experts to apply and develop social auditing to report on the non-shareholder stakeholder implications of an M&A transaction. In Australia, independent expert reports provide opinion on whether a contemplated transaction is fair and reasonable to shareholders. Specialist experts could examine and opine on whether a M&A activity is accretive or dilutive to key non-shareholder stakeholders.

Seventh, enhancing support for the United Nations-backed Principles for Responsible Investment (PRI, 2020). Developed by and for the world's major global institutional investors, the PRI offers a menu of possible actions for incorporating broader stakeholder issues into M&A activity. Signatory institutional investors commit to six principles that include: incorporating ESG issues into investment analysis and decision-making processes; incorporating ESG issues into their ownership policies and practices, and seeking appropriate disclosure on ESG issues by the entities in which they invest.

My PhD research can be used by managers, advisors, investors, analysts, asset managers, regulators and other stakeholders to make decisions relating to M&A. The coronavirus pandemic can reasonably be expected to accelerate global trends towards a broader stakeholder-oriented market economy. In such an environment planning, execution, implementation and disclosures on M&A activity cannot be underestimated. Stakeholder concerns will increasingly be incorporated into valuations and risk assessments, bidders and targets will be expected to factor in non-shareholder stakeholder opportunities and risks when evaluating the impact of potential M&A actions. Multiple aspects of M&A will be affected, not least target and bidder selections, due diligence, official communication, governance and integration, funding, regulatory compliance, policy development and stakeholder reactions beyond shareholders. In such ways my thesis contributes a stakeholder relationship framework to identify, understand and address stakeholder and management implications of M&A activity.

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Appendix 1

Appendix 1 of this thesis have been removed as it contains published material. Please refer to the following citation for details of the article contained in these pages.

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Appendix 2

Stakeholder relationship implications of merger and acquisition activity

ABSTRACT

As a critical driver of a market economy, merger and acquisition (M&A) activity connects management, capitalism and stakeholders. Yet despite this important role, and the challenges faced in creating a merged entity that balances often conflicting stakeholder interests, the literature falls short in understanding the power dynamics and processes of balancing stakeholder concerns in M&A activity. This paper attempts to fill this gap by examining the complexity of interrelated stakeholder relationship implications of M&A activity. We adopt a case study approach, examining the 2016–2017 merger process between Australia's two largest gambling entertainment groups, Tatts Group Limited (Tatts) and Tabcorp Holdings Limited (Tabcorp). We find four interrelated dynamics – multidirectional, inter-group, intra-group, and balanced – and argue that the stakeholder relationships implications of M&A can be better identified and addressed by understanding how these dynamics interact. The paper contributes to theory, practice and policy by taking an interdisciplinary approach to developing a broader understanding of M&A processes.

Keywords: Mergers and acquisitions, stakeholder relationships, market economy

1 INTRODUCTION

As a critical driver of a market economy, merger and acquisition (M&A) activity connects management, capitalism and stakeholders. M&A activity is a significant and complex strategic event in the life of corporations; it unevenly disrupts, and is disrupted by, stakeholders with ensuing public consequences. While some stakeholders benefit (e.g., bidder shareholders with higher valuations, managers with enhanced power and wealth) others are disadvantaged (e.g., employees losing jobs, target shareholders receiving reduced value, consumers paying more, environmental harm increasing). The management challenge is to create a merged entity that balances these often competing and conflicting stakeholder interests.

This challenge is magnified at a time of arguably unprecedented public questioning of the desirability and sustainability of the market economy, incidents of corporate misconduct, and the societal role of business (e.g., (Dimon, 2020; Thomson, 2020; Norman, 2018; Fink, 2020; Winston, 2019). While evidence is yet to emerge, the coronavirus pandemic can logically be assumed to be intensifying such pressures on management and the market economy. The economic devastation wrought by the pandemic is the latest blow to capitalism (Kaufman, 2020). Traditional value drivers have been shaken by the pandemic and new ones are gaining prominence, potentially breaching the gulf between what markets value and what people value

(Carney, 2020). A rationalist market approach, in which M&A is treated as a cost/benefit transaction, is limited in examining such a stakeholder relationship perspective. The literature falls short in understanding stakeholder relationships, power dynamics, and processes of balancing stakeholder concerns in M&A activity.

Therefore, this paper attempts to fill this gap by examining the complexity of interrelated stakeholder relationship implications of M&A activity. We seek to uncover how we can better identify and address the stakeholder relationship implications of M&A activity, using a case study of the 2016–2017 merger process (from announcement to implementation) between Australia's two largest gambling entertainment groups, Tatts Group Limited (Tatts) and Tabcorp Holdings Limited (Tabcorp). This merger process lends itself to analysis given its public significance, its size, involvement of complex, conflicted and powerful stakeholder interests, and extensively available data. Of interest are two specific stakeholder groups – regulators and the racing industry – because of their economic and legal power, involvement in determining the merger's net public benefit, central importance to the merger outcome, and availability of data.

The concerns of the regulators and racing industry emerge through their relationships that we find were multidirectional and disruptive of, as well as disrupted by, inter and intragroup dynamics. Using Mitchell et al.'s (1997) typology to identify which stakeholders counted during the Tatts–Tabcorp merger process allows us to examine the key regulator and racing industry relationships in balance terms. This involves identifying and addressing these stakeholder relationships through four interrelated dynamics: multidirectional, inter-group, intra-group and balance relationships. We find that the stakeholder relationship implications of M&A activity are balanced around these dynamics.

The paper contributes to theory, practice and policy by taking an interdisciplinary perspective to develop a broader understanding of M&A processes. By re-examining and synthesising stakeholder and M&A research, our interdisciplinary analysis broadens both disciplines. Demonstrating M&A activity as process outcomes of interconnected stakeholder relationships with public consequences has relevance not only to mergers from announcement to implementation but to pre- and post-merger analysis, thus contributing to other major areas of M&A theory (e.g., integration, performance). We broaden stakeholder theory into M&A research through a balance of stakeholder concerns perspective, a focus on stakeholder groups in relationships (not on the relationships themselves), providing a theoretical basis for investigating the net public benefit of M&A activity. These contributions make explicit a new world, opening possibilities to transform the way of seeing, framing and understanding stakeholder relationships around M&A activity.

For practitioners, the findings facilitate assessment, planning and proactive responses by demonstrating that M&A activity gives rise to stakeholder concerns that otherwise are unnoticed by practitioners when focusing on the more explicit obstacles and motives of M&A activity. Understanding how a merger process has stakeholder consequences contributes to the public policy debate over concerns about the market economy.

The paper is organised as follows. In Section 2 we explain why we chose the Tatts–Tabcorp merger process as our case study and Section 3 explains why we adopt a stakeholder approach. Section 4 reviews the literature and formulates the research question. Section 5 outlines a qualitative case study research design. The case is presented in Section 6 followed by a discussion of the evidence and findings in Section 7 and concluding comments in Section 8.

2 THE TATTS–TABCORP MERGER PROCESS

In this section, we explain why we have chosen the merger process leading to the $11 billion (AUD$ is used in this paper) merger between the Australian gaming groups Tatts and Tabcorp as the case study for our research. This merger created Australia's largest wagering and gaming group. In addition to its size, involvement of complex, conflicted and powerful stakeholder interests, and availability of extensive data, the Tatts–Tabcorp merger process (from announcement to implementation) is useful as a case study because of its stakeholder relationship implications given the broader public significance and multiple conflicted and collaborative stakeholder relationships involving powerful groups.

The case lends itself to an examination of the dialectical process of stakeholder concerns that drives their actions and relationships. Stakeholder relationships during the Tatts–Tabcorp merger process can be constructed around their concerns in relationship to each other (Flores and Solomon, 1998). Investigating these concerns goes beyond analysing the merger process in terms of profits, returns and public harms/benefits, extending to interpreting a dialectic process of stakeholder relationships.

While multiple stakeholder relationships were disrupted during the Tatts–Tabcorp merger process, we focus in this paper on the regulators and racing industry. Amongst the regulators, the Australian Competition Tribunal (Tribunal) is a key stakeholder, charged with determining whether the merger would result in a "net public benefit". The Tribunal (2017: 191), which had power to authorise the merger, defined net public benefit as "such a benefit to the public that the proposed merger should be allowed to occur". The net public benefit test legally determined whether the merger could proceed. The racing industry consists of multiple stakeholders, some more powerful than others.

These stakeholder groups were chosen for several reasons. First, they are powerful, with the ability to not only disrupt the merger process but, in the case of the Tribunal, to decide its fate. Second, the role of the Tribunal process was to decide the merger's net public benefit. Third, the regulator and racing industry relationships were at the heart of the merger process. Fourth, vast data was available to examine these above three factors generated largely by the public submissions, hearings and findings during the Tribunal process.

3 A STAKEHOLDER APROACH

A stakeholder approach to M&A analysis helps unpack what is meant by "public" and "benefit" in analysing the public benefits around M&A activity. "Public" and "benefit" are generic terms that make no distinction as to the constituent components nor what their interests are. A stakeholder approach can help identify such components by distinguishing different stakeholders and their stakes or interests, in this case who affects and is affected by M&A activity and in which ways. A stakeholder approach has the potential to make conflicting and interfering stakes visible (Anderson et al., 2013). As such it is a valuable theoretical lens through which to examine the Tatts–Tabcorp merger process.

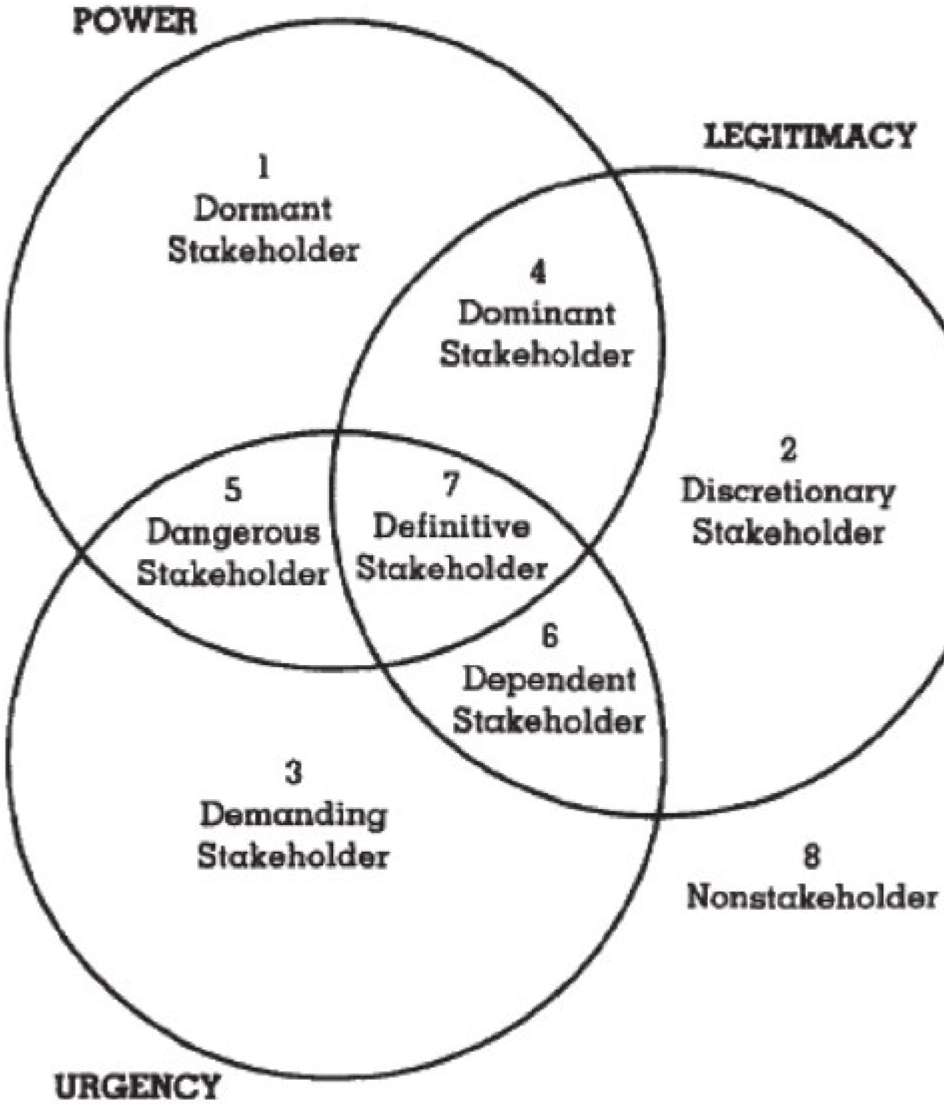
Stakeholder theory derives from a broader political economy theory. According to Deegan (Deegan, 2013: 341) "Society, politics and economics are inseparable, and economic issues cannot meaningfully be investigated without considering the political, social and institutional framework in which the economic activity takes place". Deegan (2013) views stakeholder theory as an umbrella term that incorporates various theories relevant to stakeholder relationships, including their rights, power and management. For Parmar et al. (2010) stakeholder theory conceptualises the organisation as a set of relationships among individuals and groups that have a stake in the activities that make up the organisation.

We use the ethical branch of stakeholder theory (EBST) to create a stakeholder group relationship framework to inform our data analysis. EBST focuses on stakeholders who can affect the organisation and those affected by the organisation. We adopt Freeman (1984: 8) broad definition of a stakeholder as “any group or individual who can affect, or is affected by, the achievement of a corporation’s purpose”. Stakeholder theory holds that multiple stakeholders can affect, and are affected by, the choices of a company (Freeman, 1984).

Deegan (2013) distinguishes between the ethical (normative) and managerial (positive) branches of stakeholder theory. The managerial branch is concerned with the former (not those affected by the organisation). Frooman (1999: 192) explains that according to the managerial branch, “there is a managing of interests; these stakeholders and their interests must be dealt with so that the firm may still achieve its interests … With the moral stakeholder (the one who is affected by the firm), stakeholder theorists seek some balancing of interests”. We draw on EBST to examine stakeholder relationships that affect and are affected by M&A activity.

In examining stakeholder relationships it is important to acknowledge that firms do not respond to each stakeholder separately but rather to the simultaneous demands of multiple stakeholders (Rowley, 1997). Certain stakeholders will be more important than others and the strategy to deal with each stakeholder depends on the importance of that stakeholder to the organisation relative to other stakeholders (Jawahar and McLaughlin, 2001). Lamberg et al. (2008: 5) note M&A initiatives induce varied responses from stakeholders, each potentially having a different interest and power in the organisation and “As a result, understanding the nature of an organisation’s environment, constituted by a set of stakeholders with acknowledged rights, obligations, interests and power, becomes a critical precondition for successful managerial decision-making”. We apply Mitchell et al.'s (1997: 866) typology of stakeholder salience, shown in Figure 1, to identify “who or what really counts” according to their power to influence a firm, the legitimacy of their relationship with the firm, and the urgency of their claim on a firm.

Figure 1. Stakeholder typology: One, two, or three attributes present (Mitchell et al.,1997, p.874)*



* Stakeholder typology to establish "who or what really counts". Stakeholders are characterised by their possession of power to influence the firm, legitimate relationships with the firm, and the urgency of the claim over a firm.

Figure 1 shows the interconnection between power, legitimacy and urgency. ***Power*** is defined by Mitchell et al. (1997: 866) as the extent to which a party has, or can gain, access to coercive, utilitarian or normative means, to impose its will in a relationship. These authors adopt

Suchman (1995: 574) definition of ***legitimacy*** as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". ***Urgency*** is defined by Mitchell et al. (1997: 867) as the importance of the relationship to the stakeholder and the degree to which delay in attending to the claim or relationship is unacceptable to the stakeholder. For Mitchell et al. (1997: 869) power gains authority through legitimacy and gains exercise through urgency.

Mitchell et al. (1997) link power, legitimacy, and urgency to salience. The salience of a stakeholder will be low if only one attribute is present (latent stakeholders), moderate if two attributes are present (expectant stakeholders), and high if all three attributes are present (definitive stakeholders). Furthermore, power, legitimacy and urgency interact with each other to form seven stakeholder types. Latent stakeholders possess only one of these three attributes making them either 'dormant' (having only power), 'discretionary' (legitimacy) or 'demanding' (urgency) stakeholders. Expectant stakeholders possess two attributes, so are either 'dominant' (having power and legitimacy), 'dependent' (legitimacy and urgency) or 'dangerous' (power and urgency). 'Definitive' stakeholders possess all three attributes (power, legitimacy and urgency). In this paper, we categorise the data according to these classifications.

4 LITERATURE REVIEW

In this section, we review literature relating to public concerns about M&A activity and address stakeholder implications of M&A activity. In doing so we identify gaps in the literature, which help to formulate our research question.

4.1 Identifying public concerns about M&A activity

Well before the first merger wave of 1895–1904 (Bruner, 2004), economists were aware of the social, political and economic consequences of market concentration. For instance, Adam Smith (2005) saw economic concentration as a distortion of the market's natural ability to optimally allocate society's resources. Karl Marx (2004) outlined how concentrating production in fewer hands can only occur with the simultaneous creation of its opposite – poverty and misery of the many. While early conceptualisations were not specifically M&A focused, they anticipate the broader societal consequences of market concentration as an outcome of what would evolve as corporate M&A.

M&A activity has stakeholder relationship implications. As "socially constructed arenas" M&A are "social drama that reveals underlying social issues of conflict, power, and status"

(Schneper and Guillén, 2004: 266). Stakeholder interests may be damaged during M&A and social harms may follow (Waddock and Graves, 2006). M&A is seen as both a cause and consequence of spiralling globalisation, which corresponds with M&A's growth since its first wave (Faulkner et al., 2012). As political processes, M&As are mainly dealt with by scholars as internal power struggles, without examining their external power dynamics and their influences over performance (Meglio, 2015). However, power and politics themes are important parts of the complex change events characterising M&A, and therefore should be more fully explored (Cartwright et al., 2012; Sinha et al., 2015).

Contemporary M&A activity, through increasing market concentration, arguably is linked to unprecedented abusive corporate activities, as well as power and economic inequality. The International Monetary Fund (IMF) finds that higher market power decreases the share of firms' revenue going to workers and increases the percentage of income going to profits (Diez et al., 2018). Moreover, rising corporate market power, research shows, has led to "low investment despite rising corporate profits, declining business dynamism, weak productivity, and a falling share of income paid to workers" (Diez et al., 2018: 5). Australian research links more highly concentrated industries to lower wages, anti-competitive conduct, poor consumer treatment, weak competition and "massive" increases in mark-ups (Triggs and Leigh, 2019: 708). Concentrated markets have played a part in the steady rise in inequality over the past generation (Leigh and Triggs, 2016).

There are reasons to believe that concentrated markets, reduced competition and increased monopoly power harm the economy (Krugman, 2016). Competitive pressure is key to economic performance, pushing prices towards costs, moving resources to their best uses and stimulating innovation, but is not always successful in doing so (Minifie, 2017). The IMF research also finds that mark-ups among advanced economies have significantly increased since the 1980s, mostly driven by "superstar" firms that managed to increase their market power. The IMF notes the link between mark-ups and investment and innovation is strongly negative in industries featuring higher degrees of market concentration. Monopoly power results in higher profits, lower investment as firms restrict output, and lower interest rates as demand for capital falls, consistent with what we have seen in recent years (Summers, 2016).

Companies are responding to growing concern about monopoly power. For instance, in 2019, the Business Roundtable (2019), which represents the chief executives of 181 of the world's largest companies, declared that the purpose of a corporation is not just to serve shareholders (their official position since 1997) but "to create value for all our stakeholders". It seems that shareholder primacy, the core operating principle of public companies for about 50 years since Friedman (1970) famously declared "the social responsibility of business is to increase its profits," is being challenged.

Winston (2019) highlights four reasons why business leaders are feeling pressure to rethink the role of business in society. First, social norms are changing, and expectations from employees, customers, and investors are changing with them. Second, there is a growing realisation that a focus on one key stakeholder – shareholders – is flawed. Third, investors are increasingly pressing companies to focus on how they contribute to society. Fourth, business is feeling the consequences of the global challenges of climate change, growing inequality, resource scarcity and environmental damage. According to Winston (2019: 3) "Companies are increasingly expected to play a positive role in society and take responsibility for the broader effects of their actions and products". This extends to companies' M&A practices and policies. Evidence suggests that an acquirers' stakeholder orientation is positively associated with acquisition performance (Bettinazzi and Zollo, 2017).

4.2 Addressing stakeholder relationship implications of M&A activity

Given the above-mentioned public concerns around M&A activity, the implications of M&A activity for stakeholder relationships is of academic, practitioner and policy interest. Linking the respective literature on stakeholders and M&A advances an interdisciplinary approach to M&A research that is largely absent from the extant literature (Haleblian et al., 2009; Cartwright and Schoenberg, 2006). Most M&A research operates explicitly or implicitly through an agency theory lens with a focus on shareholder wealth creation (Haleblian et al., 2009). A numbers-logic oriented tradition of business planning is unable to suggest how stakeholders will react when a major organizational transition such as M&A takes place (Lamberg et al., 2008). There is growing awareness that M&A is affected by stakeholders (Meglio, 2016) and that extending the context for M&A research to its stakeholder consequences helps understand the complexities, opportunities and obstacles around M&A (Anderson et al., 2013: 8), which are "fraught with instabilities, ambiguities, politicization, and fragmentation that traditional research approaches cannot do justice to" (Meglio and Risberg, 2010: 90).

Literature overviews of M&A research underscore the scarcity of research linking stakeholder analysis with M&A analysis. Haleblian et al. (2009: 488) “surmise” that the effect of M&A on stakeholders other than shareholders has not been sufficiently examined, an area “ripe for future work.” Gomes et al. (2013) agree it is “vital” to deal with stakeholders’ anxieties. Even though Yaghoubi et al. (2016) highlight in their introduction and conclusion that M&A “are one of the most important corporate activities that significantly influence a wide variety of different stakeholder groups” they make no other mention of stakeholders. These literature overviews of M&A research point to a gap in stakeholder analysis in the prior literature.

Segal et al.'s (2020) review of the literature links stakeholder and M&A research, showing ***stakeholder relationships*** have not been sufficiently explained or examined. Prior research fails to more explicitly identify the stakeholder relationships affecting and affected by M&A activity, focusing on unidirectional analyses, which primarily consider the effect of M&A activity on stakeholders, largely ignoring the effect of stakeholders on M&A activity. It is also focused on narrow dyadic connections between stakeholders and the focal organisation, mainly ignoring other inter-stakeholder relationships. In much of the prior literature, stakeholder groups are understood as largely undifferentiated and homogenous, rarely examining intra-stakeholder dynamics. This points to opportunities to examine stakeholder relationships as multi-directional, involving a complex web of interconnected relationships between and among stakeholders to facilitate a more explicit understanding of M&A activity and its stakeholder parts.

Stakeholder relationships around M&A activity are neither static (Lamberg et al., 2008) nor linear and rational (Anderson et al., 2013). Rather, they progress along different, interconnected dimensions (Cartwright et al., 2012) in complex patterns (Stahl et al., 2013), involving diverse stakeholder “orientations” (Bettinazzi and Zollo, 2017). According to (Jemison and Sitkin, 1986: 161) “Acquisitions are strategic, complex, occur sporadically and affect varied stakeholder groups whose involvement is temporally and functionally divided. These factors result in an acquisitions process that is both discontinuous and fractionated.” This points to opportunities for researchers to consider how stakeholders alter the way they wield power and the mechanisms by which power is deployed in different types of transactions (Stahl et al., 2013). These challenges to the understanding of M&A activity as static, linear and subject to rational modelling suggest there is a the need for a dialectic understanding of stakeholder relationships around M&A activity to capture the power, dynamics and processes involved in these relationships.

4.3 Research question

In this literature review we identify public concerns about M&A activity and opportunities to examine stakeholder relationships around M&A activity as multi-directional, between and among stakeholders. A gap in the literature is identified in terms of a stakeholder focus, in which stakeholder *relationships* have not been well explained in literature linking stakeholder and M&A research. Challenges to the perception of M&A activity as static, linear and subject to rational modelling point to the need for a dialectic understanding of stakeholder relationships around M&A activity. This suggests that further research is required to understand how conflicting stakeholder relationships can be considered and incorporated into an analysis of an M&A activity. Hence the research question:

> *How can we better identify and address stakeholder relationship implications of M&A activity?*

5 RESEARCH DESIGN: A QUALITATIVE CASE STUDY

In this section we outline a qualitative case study research design that is suited to identify and address stakeholder relationship implications of M&A activity. This design allows for synthesis and integration within and across fields of study while "improving insight and evidence about the multi-layered, complex, and fast-changing business reality" (Point et al., 2017: 199). In this case, the fields of study to be spanned are merger and stakeholder research. This section then lays out our approach to gathering the data (Section 5.3), data analysis (Section 5.4) and data interpretation (5.5).

5.1 Case study

The empirical part of this study applies a case study methodology to identify and address stakeholder relationship implications of M&A to a single case – the Tatts–Tabcorp merger from the time the merger was announced in October 2016 to its implementation in December 2017. Creswell (2012: 99) describes a single case study as appropriate when a "researcher focuses on an issue and selects one bounded case to illustrate this issue". In this paper, we focus on one issue (stakeholder relationship implications of M&A activity) illustrated with one bounded case study (the Tatts–Tabcorp merger process from announcement to implementation).

Yin (2014: 3) notes that the need for case study research arises out of a desire to understand complex social phenomena: “A case study allows investigators to focus on a case and retain a holistic and real-world perspective”. Yin argues that the case study is a preferred method of social science research when the main research questions ask “how” or “why”, when the researcher has little control over behavioural events, and when the focus is on the phenomenon. The Tatts–Tabcorp merger process provides a useful case to answer “how” as we had no control over the case (the behavioural event) and its focus is on key stakeholder relationships (the phenomenon). By integrating a behavioural event with dialectical stakeholder relationships, a case study facilitates the development of how to better identify and address stakeholder relationship implications of M&A activity.

5.2 Qualitative research method

The study applies a qualitative research method, which allows researchers to develop a complex picture of the research issue (Creswell (2012: 47). Understanding M&A activity as a process requires and implies direct, qualitative observation of the phenomena (Meglio and Risberg, 2010). Few qualitative processual M&A studies view the process as a sequence of events that describe the change (Meglio and Risberg, 2010). Qualitative M&A research provides depth, richness and rigour that can clarify relationships and generate new theory and provide opportunities to research complex phenomena that cannot be captured by one-dimensional variables and simple frequencies (Risberg, 2015). In moving beyond explanation through causal relationships, a qualitative research method opens the possibility for dialectical forms of explanation of stakeholder relationship implications of M&A activity.

5.3 Data collection

The case study data uses documentary data and semi-structured interviews. Gathering the materials involved an iterative process between data collection and analysis (Varvasovszky and Brugha, 2000; Hahn and Kühnen, 2013). As new data were obtained, we revised and deepened searches from earlier levels of the investigation until the two relevant stakeholders were identified – regulators and the racing industry – their stakes and relationships mapped, and their disruptions assessed. Distinct from analysing data, this process of gathering data included complicated interplays of critically reflecting on the data, searching for research patterns, and questioning and refining the categories for reviewing the literature (Hahn and Kühnen, 2013). This data gathering process is consistent with Eisenhardt (1989) central idea that researchers continuously and iteratively compare theory and data toward an approach that closely fits the data. It is also consistent with Yin (2014) case study method, which involves combining, studying, and iterating multiple sources of evidence to improve the credibility of the case study. Converging on findings from different sources increases the case's construct validity.

Documentary data was widespread and readily available, as reflected in Table 1. The Tatts–Tabcorp merger underwent intense public scrutiny. The Australian Competition and Consumer Commission (ACCC) and the Tribunal examined the public interest of the proposal, resulting in evidence from 84 witnesses and interested third parties. The merger furthermore generated substantial documentary data, not least the scheme announcements, agreement, scheme documents and an independent report. Other source documents shown in Table 1 include annual reports, press releases and shareholder updates. The high-profile merger also attracted extensive media, broker, analyst, and proxy adviser interest, which generated further data. The breadth and availability of the documentary data enhanced the ability to research and its quality.

Table 1: Documentary data

Source	**Title**
ACCC	ACCC Report to Tribunal
ACCC	Statement of Issues: Tabcorp Holdings and Tatts Group – proposed merger.
ACCC	ACCC won't seek review of Tabcorp-Tatts determination
Barry (Sportsbet CEO)	Witness Statement to Australian Competition Tribunal.
Burt (RWWA CEO)	Statement to Australian Competition Tribunal
Forbes (Racing Queensland CEO)	Statement to Australian Competition Tribunal
Freeman (Tabcorp executive)	Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited.
Houston (founder Houston Kemp Economists)	Expert Economic Report.
Tatts–Tabcorp	Merger Implementation Deed.
Tatts–Tabcorp	Tabcorp and Tatts to combine to create a world-class diversified gambling entertainment group
Tabcorp	Tabcorp to seek authorisation from the Australian Competition Tribunal
Tabcorp	Application to the Australian Competition Tribunal for Merger Authorisation
Tabcorp	Tabcorp enters into agreements with CrownBet
Tabcorp	Tabcorp Annual Report 2017
Tabcorp	Tabcorp Annual Report 2019
Tatts	Tatts receives indicative proposal from financial consortium to acquire 100% of Tatts Group
Tatts	Tatts Group Limited Annual Report 2017

Tatts	Tatts Group Limited Scheme Booklet
Thompson (Acting CEO Racing Victoria)	Affidavit to Australian Competition Tribunal
Tribunal	Decision on Tabcorp merger
Tribunal	Judgement on Tabcorp Application
V'Landys (Racing NSW CEO)	Statement to Australian Competition Tribunal

In addition to documentary data, we conducted 33 semi-structured interviews with key stakeholders, as outlined in Table 2. These interviews were primarily held to gain information that could amplify insights arising from documentary research (Barone et al., 2013). "The challenge of interview data", note Eisenhardt and Graebner (2007: 28) "is best mitigated by data collection approaches that limit bias". This involved "using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives". Interviews were conducted with primary sources (i.e., decision makers in the organisations with first-hand knowledge of the merger process), including industry executives (T1, T2), bankers (F1, F2), lawyers (L1–L5) and communication experts (CA1), shareholders (S1–S8), the racing industry (Rac1, Rac2), the regulator (R1), the competitors (C1–C3) and licensed gaming venues (G1). Secondary sources that were not directly involved in the merger process were also interviewed, including experts (E1–E5), an analyst (A1) and bankers (F3, F4). These interviewees were highly knowledgeable and contributed multiple perspectives.

Table 2: Interview data

Job function/representative	**Code**	**Coding**
Analyst	A	A1
Communication expert	CA	CA1
Competitor	C	C1-C3
Expert	E	E1-E5
Banker	F	F1, F2
Independent investment banker	IB	IB1, IB2
Lawyer	L	L1-L5
Licensed gaming venue executive	G	G1
Racing industry	Rac	Rac1, Rac2
Regulator	R	R1
Shareholder	S	S1-S8
Industry executive	T	T1, T2
Total		33

The interviews were mostly conducted from August 2017 to September 2018 by telephone, typically lasting 30–60 minutes. They were recorded, conducted on a confidential basis and were semi-structured with a localist approach, which Qu and Dumay (2011) define as being undertaken in a social context. This allows for treating the interview as more than a tool for collecting data. Each interview sought to understand how the interviewee made sense of stakeholder group relationships—the interviews built on each other. As new data emerged, some interviewees were re-interviewed about the latest evidence in an iterative process, building a dynamic narrative of the merger process.

5.4 Data analysis

Drawing on stakeholder theory, the documentary and interview data were integrated and sorted into a framework to understand the stakeholder relationships during the Tatts–Tabcorp merger process, as shown in Table 3.

Table 3: Regulator and competitor relationships during the Tatts–Tabcorp merger process

1 Stakeholder Group	2 Stakeholder Subgroup	3 Stake	4 Initial Reaction	5 Motivation	6 Final Reaction	7 Outcome	8 Stakeholder Salience[1]	9 Balance[2]
Regulator								
	ACCC	Regulate competiti on	Concern[3]	Harm EGM competition in Queensland[2]	Oppose	Odyssey sold, lost ACT appeal	Moderate (Dependant) Legitimacy/ Urgency	N
	Tribunal	Judge net public benefit	Support	Merger in public interest	Support	Allowed merger	High (Definitive) Power/Legitimacy/ Urgency	Y
	ASIC	Regulate corporate	n/a		Support	Allowed merger	High (Definitive) Power/Legitimacy/ Urgency	Y
	State/territory governments	Regulate gaming industry	n/a		Support	Allowed merger	Moderate (Dominant) Power/Legitimacy	Y
Racing industry[4]								
	Racing Victoria[5]	Fees	Oppose	Less competition for Vic TAB licence, anti-competitive leveraging through Sky, reduced industry funding, licence and retail outlet arbitrage, export revenue loss	Oppose	Dropped case at Tribunal appeal	Moderate (Dependant) Legitimacy/ Urgency	N
	Racing NSW	Fees	Support	Increase wagering competition	Support	Supported merger	High (Definitive) Power/Legitimacy/ Urgency	Y
	Racing Queensland	Fees	Oppose	Reduced focus on Queensland racing industry	Support	Agreement	High (Definitive) Power/Legitimacy/ Urgency	Y
	Racing and Wagering WA	Fees	Concern	Less attractive for Tabcorp to pool with RWWA; remove bidder for WATAB wagering licence.	Support	Agreement	High (Definitive) Power/Legitimacy/ Urgency	Y

[1] Mitchell et al (1997) – typology to establish “who or what really counts" identifies stakeholders by their possession of power to influence the firm, legitimate relationship with the firm and the urgency of claim on a firm, shown in Figure 7.

[2] Relationship with Tabcorp at end of merger process – balanced (Y) or imbalanced (N)

[3] The ACCC’s Statement of Issues outlined a further five issues that “may raise concern” - removal of potential supplier of totalisator, pooling services; removal of bidder for totalisator and retail exclusivity rights; combining Sky Racing with Tatts’ retail wagering operations; potential foreclosure of competing suppliers of electronic gaming machine systems and services in NSW and Queensland; reduced competition in the supply of electronic gaming machine repair and maintenance services in Victoria.

[4] In addition to the four racing groups identified in this table, there were statements from a further 19 participants in the racing industry to the Tribunal (2017).

[5] Joint Tribunal submission of Racing Victoria, Harness Racing Victoria and Greyhound Racing Victoria

The stakeholder relationship framework facilitates identifying and addressing the stakeholder relationship implications of the merger process. The first two columns list the two chosen stakeholder groups – regulators and the racing industry – and their relevant sub-groups (Section 3.3 explains the reasons for choosing these two groups). Their stakes are then identified in the third column. Initial and final reactions were examined for any shifts over the 14 months it took to complete the merger. Columns 4–7 show each group's initial reactions to the merger (4), reasons motivating these reactions (5), their final reactions to the merger (6) and merger outcome for each stakeholder group (7). Column 8 demonstrates the importance of each stakeholder group during the merger process, drawing on Mitchell et al.'s (1997: 874) stakeholder typology to identify "who or what really counts". The last column (9) reflects the balance or imbalance of each stakeholder group's relationship to Tabcorp at the end of the merger process.

5.5 Data interpretation

Creswell (2013) writes that interpretation in qualitative research can take many forms, be adapted for different types of designs, and be flexible to convey personal, research-based and action meanings. In this paper, the concerns of the regulators and racing industry are constructed through their relationships – multidirectional, between and among stakeholders – that continually shift. These relationship themes were identified through Segal et al.'s (2020) review of the literature.

By continually explaining and reinterpreting, we engaged and re-engaged with the literature, theory and data in an iterative form of interpreting what was read and heard from triangulating the literature, interview and document data. Yin (2012) explains triangulation seeks at least three ways to verify or corroborate an event to strengthen the validity of a study, ideally not only seeking confirmation from three sources but finding three contrasting sources (in this case study literature, documents and interviews).

Interpreting the data involved thematic analysis, a method of qualitative data analysis to identify and understand what is common to a topic (Clarke et al., 2015) Themes were categorised around different but interrelated components of the regulator and racing industry relationships during the Tatts–Tabcorp merger process that was identified to have a coherent focus, scope, and purpose (Clarke et al., 2015).

The Tatts–Tabcorp case study presents unique motives, stakeholder groups, structures, features, dynamics and hence stakeholder relationships. By seeking sources of evidence directly related to the research question we are able to elicit detail and depth from a single merger process from which qualitative generalisations can be drawn (Parker and Northcott, 2016). Translating the particular to the general involves understanding and portraying how and why regulator and racing industry relationships during the Tatts–Tabcorp merger process developed in particular ways and the processes and mechanisms involved, as well as understanding their settings including the lived experiences of the stakeholders (Parker and Northcott, 2016).

6 CASE STUDY – THE TATTS–TABCORP MERGER PROCESS

This section introduces the merger and its parties (Section 6.1), and the regulator (Section 6.2) and racing industry stakeholders (Section 6.3).

6.1 The merger and its parties

On 19 October 2016, Tatts and Tabcorp announced a Merger Implementation Deed to combine the two companies and create a diversified gambling entertainment group with a pro forma enterprise value of $11.3 billion. The merger was via a scheme of arrangement (scheme) that offered cash and scrip, which saw Tatts shareholders receive 0.80 new Tabcorp shares and $42.5c payment for each Tatts share.

Before merging with Tabcorp, Tatts was an ASX-listed provider of gambling services. Its market capitalisation before the merger was announced was $5.3 billion. The independent experts valued it at $5.4–5.9 billion. Through its lottery, wagering and gaming operations, Tatts' 2017 Annual Report stated FY17 revenue of $2.8 billion and EBIT of $386 million.

Tabcorp, a gambling entertainment company, had a $4 billion market capitalisation before the scheme was announced and was valued by the same independent expert at $3.8–4.3 billion. Tabcorp's 2017 Annual Report notes it operated three core businesses – wagering and media, Keno, and gaming services – employed over 3,000 people, and reported revenue of $2.2 billion in FY17 and EBIT of $102 million.

6.2 The regulators

Table 3 lists the four critical regulatory sub-groups whose approval was a condition of the Tatts-Tabcorp merger's implementation. They are, first, the ACCC, the independent Australian government statutory authority charged with enforcing the *Competition and Consumer Act 2010* to promote competition and fair trading (ACCC, 2017b). Second, the Tribunal reviews determinations made by the ACCC (Australian Competition Tribunal, 2018). Third, the Australian Securities and Investments Commission (ASIC), an independent Australian government body that acts as Australia's integrated corporate, markets, financial services, and consumer credit regulator (ASIC, 2018). Fourth, Australia's state and territory governments. Australia's gambling industry is highly regulated by state and territory legislation. The Tatts-Tabcorp merger required approvals from around 30 different state government branches and agencies (L4).

Each of these four regulator groups had different stakes in the merger process. The ACCC's merger review assessment (2017b) is confined to assessing the risk of a merger substantially lessening competition (SLC). Each merger is considered on its merits according to the specific nature of the transaction, industry and particular competitive impact likely to result in each case. The ACCC is not able to consider countervailing public benefits.

The Tribunal hears applications for review once the ACCC has made a determination to either grant or refuse clearances (Australian Competition Tribunal, 2018). Its assessment is one of 'net public benefit' (Australian Competition Tribunal, 2017), far broader than the ACCC's SLC assessment.

ASIC (2018) represents the interests of investors and creditors in Australian schemes. It reviews and registers scheme documents and protects the interests of members affected by the scheme. ASIC must object to a merger if it considers the scheme will deprive "shareholders" of the benefits or protections of a takeover; or the scheme documents do not meet disclosure obligations.

State and territory governments each have their own regulatory regime that dictates who may offer wagering services, the circumstances in which those services can be supplied, the maximum revenue that operators may take from wagers placed with that operator, the taxes paid on wagering services, the products that may be offered by wagering operators, and the advertising of wagering services and products (Australian Competition Tribunal, 2017: 41).

ASIC issued a no objection letter in the case of the Tatts–Tabcorp scheme and all necessary state and territory regulators approved the merger. Therefore, the key, and ultimately decisive, regulator relationships during the merger process were those between the merging parties and the ACCC and Tribunal, the ACCC and Tabcorp, and the Tribunal and Tabcorp. These are the focus of this paper.

6.3 The racing industry

According to the Queensland Government Statistician's Office (2016), Australia's racing industry is massive and dominated by Tatts and Tabcorp. Australian racing turnover for FY15 was $17.6 billion and expenditure (turnover fewer winnings) $2.8 billion. Of this Totalisator Agency Boards (TABs) comprised 59% ($10.4 billion) and 75% ($ 2.1 billion) respectively. Tabcorp (2017b: 9) claims the group is "a core part of the structure of Australian racing and is the largest financial contributor to the racing industry". Through its industry arrangements, licences and taxation it returned $813 million to the racing industry in FY17 comprising $325 million to the Victorian racing industry, $312 million to the NSW racing industry, $100 million to race field fees and $76 million to broadcast rights and international contributions. Tatts' 2017 Annual Report shows it paid $190 million to the racing industry in FY17 via product and race information fees.

Principal racing authorities (PRAs) form the core of Australia's racing industry structure. Each Australian state/territory has a PRA responsible for the management and administration of racing codes in that jurisdiction (ACCC, 2017a). The four main PRAs were Racing Victoria, Racing NSW, Racing Queensland and Racing and Wagering Western Australia (RWWA), shown in Table 3. The focus on this paper is on these core PRA relationships.

The primary stake of the racing industry is fee income, shown in Table 3. The ACCC (2017c) argued that Australia's racing industry "is heavily reliant" on the wagering revenue that wagering operators, in addition to paying wagering taxes to state governments, are required to pay to racing authorities for racing product information. Product fees contributed by Tatts and Tabcorp, as the exclusive suppliers of off-course totalisator and retail wagering services, account for the "significant majority" of PRA funding.

PRAs are both wagering suppliers to the merging parties and partners where legislation requires the TAB and the racing industry to enter into partnership agreements (E1). These agreements vary. In Victoria, this is a formal joint venture with a separate board. In other states it is less formal but still governed by legislation and a partnership agreement. These historical and legal differences affect the different PRA relationships and merger benefits. The most fraught PRA relationship was with Racing Victoria, which opposed the merger as an intervenor at the

Tribunal. In their announcement and evidence to the Tribunal, Tatts and Tabcorp pitched the benefits of the merger to the racing industry as: 1) investment from a more substantial wagering operator to enhance customer experiences; 2) resulting in at least $50m in additional annual funding that would go to the racing industry; 3) providing a pathway to national pooling for pari-mutuel wagering, and 4) providing more effective competition for the supply of wagering products and services. Racing Victoria argued the merger would lead to a vertically-integrated entity with increased market power when bidding for racing media rights and would reduce competition for the exclusive Victorian wagering licence that expires in 2024 (or 2026 if an extension is taken up by the Victorian government), thus lowering returns to the racing industry (Thompson, 2017). This licence is critical to Racing Victoria's funding as its main revenue stream (L5). The Tribunal (2017: 192) rejected Racing Victoria's intervention, concluding that a merged group's greater scale and lower costs would compete more effectively than as individual companies with public benefits accruing to the racing industry and consumers.

Shoring up support for the merger from the powerful racing industry was critical to the merger's implementation. All but one of the interviewees (Rac2) was struck by "the mother of all charm offensives" (F2) and "war-room operation" (L5) that the Tatts and Tabcorp boards launched the day the merger agreement was announced to woo critical stakeholders, including the racing industry.

This action involved over 100 meetings with stakeholders (T1, F1, L3). C1 described the scale of the effort as "unprecedented" despite stakeholder management being common practice where regulatory concerns loom large. "The length they went to in anticipating problems and getting broad support was massive. They tried to arrange each child had a toy, dealing with the self-interests of each group and removing key obstacles" (E1). Rac1 said it was "an enviable strategy that was effective". The scheme booklet shows transaction costs (primarily advisory costs but including stamp duty and other costs) amounted to some $200m or around 2.5% of the $8.1bn proforma market capitalisation of the merged group. Tabcorp's legal team comprised close to 80 lawyers (L5). All interviewees acknowledge the crucial role this "charm offensive" played in getting the merger implemented.

The action, interviewees emphasised, was rooted in Tabcorp's day to day relationships with the racing industry. This was embedded in its corporate culture as a way of doing business with partners (L4). Tabcorp, R1 noted, operated in a highly regulated market and so were familiar with managing racing industry relationships. "It is part of what they do. They know their way round." T2 noted that not one licensing agreement with any PRA was the same, which created different relationships. He added that Tabcorp knew its key racing industry groups well, had always kept close to them, and once the merger was announced worked hard to educate them and make it easier to understand the transaction. Having a sound competition process and legal arguments established was beneficial, but strong stakeholder support up-front was critical (L3).

7 DISCUSSION

This section examines the stakeholder relationships according to the four interrelated parts – multidirectional(Section 7.1), inter-group (Section 7.2), intra-group (Section 7.3), and balance dynamics (Section 7.4). These findings are summarised in Table 4, which connects each finding (column 1) to the literature (column 2) and interview/document data (columns 3 and 4).

Table 4: Iterative connections of findings to the literature and case data

Findings	Literature	Interviews	Documents
Part 1: Regulator and racing industry relationships during the Tatts–Tabcorp merger process were multidirectional	Freeman (1984); Parmar et al. (2010); Deegan (2013); Frooman (1999)	R1; Rac2; F1; L1, C1; T1; S1, L2; E2; S5; L3, L5	ACCC (2017c); Tabcorp (2017a); Bartley (2015); V'Landys (2017); Australian Competition Tribunal (2017); Forbes (2017); Burt (2017), (Thompson, 2017), (Tabcorp, 2017b); (Tabcorp, 2017c) "Tabcorp to seek authorisation from the Australian Competition Tribunal
Part 2: Relationships between regulators and the racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process	Freeman (1984); Parmar et al. (2010); Kujala et al. (2012); Cording et al. (2013)	L2; l3,	Australian Competition Tribunal (2017); (Tabcorp, 2017c)
Part 3: Relationships among the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process	Winn (2001); Harrison and Freeman (1999); Wolfe and Putler (2002)	S7; R1; L1; L3; F1; A1, T2; C1; Rac2; F2., L5	ACCC (2017a); Australian Competition Tribunal (2017); ACCC (2017b)
Part 4: Regulator and racing industry relationships during the Tatts–Tabcorp merger process were unevenly balanced in ethical terms	Reynolds et al. (2006); Evan and Freeman (1988); Parmar et al. (2010); Mitchell et al. (1997); Rowley (1997); Jawahar and McLaughlin (2001); Lamberg et al. (2008); Frooman (1999)	S3, E1, R1; Rac2; F1; L1, C1; T1; S1, L2; E2; S5; L3, S7; R1, F1, A1, T2, F2, L5	ACCC (2017c); Tabcorp (2017a); Bartley (2015); V'Landys (2017); Australian Competition Tribunal (2017); Forbes (2017); Burt (2017); ACCC (2017a); ACCC (2017b).
General finding: We can better identify and address stakeholder relationship implications of M&A activity by examining balances around these relationships	Freeman (1984); Parmar et al. (2010); Kujala et al. (2012); Cording et al. (2013); Winn (2001); Harrison and Freeman (1999); Wolfe and Putler (2002); Reynolds et al. (2006); Evan and Freeman (1988);	n/a	n/a

	Mitchell et al. (1997); Rowley (1997); Jawahar and McLaughlin (2001); Lamberg et al. (2008); Deegan (2013); Frooman (1999)		

7.1 Part 1 Finding: Regulator and racing industry relationships during the Tatts–Tabcorp merger process were multidirectional

We find the relationships between Tabcorp and the regulators and racing industry during the Tatts–Tabcorp merger process were multidirectional. Five key multidirectional relationships are highlighted. Table 4 links the finding to the literature and data.

7.1.1 ACCC and Tabcorp

In March 2017, the ACCC (2017c)issued a Statement of Issues (SOI) as part of its merger review of the Tatts–Tabcorp merger. The SOI found one issue "likely to raise concerns" (a so-called red light) about the supply of electronic gaming machine services in Queensland. Tabcorp addressed this by ultimately divesting its Queensland poker machine monitoring business, Odyssey Gaming Services. The ACCC's concern was that the proposed merger was likely to substantially lessen competition in Queensland for the supply of poker machine monitoring and repair and maintenance services by combining Maxgaming and Odyssey (subsidiaries of Tatts and Tabcorp respectively). The ACCC raised a further five issues that "may raise concern" (so-called yellow lights). Four days after the ACCC's SOI and before the ACCC completed its merger review Tabcorp applied to the Tribunal for authorisation of the proposed merger short-circuiting the ACCC's informal merger clearance process (R1). With hindsight, the ACCC saw that, to advance their plan, the merging parties needed support, which had been lined up well before the ACCC's SOI and involved "a lot of work and lobbying" (R1). The relationship between the ACCC and Tabcorp had previously been conflicted when the ACCC blocked its 2006 bid for UNiTAB Limited, the then operator of off-course totalisator and retail wagering services. (Tatts subsequently acquired UNiTAB following the ACCC's decision.) The Tribunal process made a big difference in the outcome of the Tatts merger, suggesting Tabcorp learned from its UNiTAB experience (Rac2, F1).

7.1.2 Tribunal and Tabcorp

Tabcorp did not wait for the ACCC's merger review process to complete in the belief that its broad stakeholder relationships were better suited to success at the Tribunal. As L1 states: "The parties expected the ACCC to have negative views on the merger proposal and were far more confident of authorisation based on stronger public benefit grounds". Tabcorp (2017c: 1) noted how it "actively engaged" with stakeholders who were "strongly supportive" of the public benefits of the merger transaction as seen by the "substantive evidence" in its Tribunal application. This was, however, "not the favoured route as it was so public and provided critics with a forum" (L1). There were also costs associated with going to the Tribunal, but this route at least provided a platform that the intervenors would not have had otherwise (C1).

In addition to offering to divest Odyssey, Tabcorp on its own motion submitted conditions to the Tribunal. "No doubt mindful of the Tribunal's earlier suggestion that it would prefer to rely on conditions as expressed by participants" (Australian Competition Tribunal, 2017: 44), these conditions related to the supply of Sky Racing to the providers of retail channel wagering, the supply of pooling services to RWWA, and any future rival pari-mutuel wagering operator in Victoria. Tabcorp also committed to dispute resolution mechanisms and compliance reporting. This multidirectional relationship approach was successful in persuading the Tribunal of the net public benefit of the merger.

7.1.3 Racing Victoria and Tabcorp

The PRA relationship between Tabcorp and Racing Victoria was "absolutely crucial" (T1). While Racing Victoria's opposition to the proposed merger was anticipated by Tabcorp, its level of aggression surprised the merging parties (L2). Racing Victoria sensed that their

> joint venture is not joint in the traditional sense where each party contributes to strategy but a forced marriage … whereby Racing Victoria is reliant on Tabcorp for money. Tabcorp's expansion disrupted the relationship by introducing conflicts of interest around competing businesses (Rac2).

Relations between Tabcorp and Racing Victoria, which wanted to leverage its position as the premier racing body, had long been frosty (E2, L1, S5, C1, L5) and included Tabcorp's blackout of Victorian racing vision in 2015 (Bartley, 2015) and Racing Victoria's opposition to Tabcorp's proposed merger with UNiTAB in 2006 (L1). T2 noted that both Tabcorp and Racing Victoria liked to dominate and control: "The relationship was always tense but, in the end, it was commercial despite the tensions". There was also a sense that Racing Victoria did not oppose the merger on principle, but rather to retain power (T2) and leverage its up-coming 2024 licence renewal (L3): "Racing Victoria's threat was the short-term nature of its licence. It tried to engage with Tabcorp but [was] dismissed. It could not match their legal challenge at the Tribunal" (Rac2). Some (L3, C1) believe Tabcorp could have won the support of Racing

Victoria without going to the Tribunal. “They were not flexible enough to pivot” (C1). Ultimately, Racing Victoria was forced to accept the Tribunal’s rejection of their objections.

7.1.4 Racing NSW and Tabcorp

Racing NSW was at the outset supportive of the Tatts–Tabcorp merger, believing a merger would increase wagering competition and therefore benefit the NSW racing industry (V'Landys, 2017). It argued the “health of NSW racing is directly linked to the health of NSWTAB due to the revenue it receives under its Racing Distribution Agreement (RDA) and tax parity” (V'Landys, 2017: 10). Racing NSW disagreed with suggestions that the merger would impact competition in the market for the broadcasting of racing vision. It told the Tribunal that “efforts by the intervening parties … to assert otherwise are simply opportunistic attempts … to improve their financial position and/or to damage Tabcorp and Tatts” (Australian Competition Tribunal, 2017: 132). On claims that the merged entity would have greater bargaining power in respect to acquiring media rights, Racing NSW argued “the converse should apply as vision is fundamental to the wagering operations of Tabcorp and Tatts. They must have it in their retail network in order to be able to generate wagering” (Australian Competition Tribunal, 2017: 136).

7.1.5 Racing Queensland and Tabcorp

Racing Queensland had initial concerns about the merger in relation to a reduced focus on Queensland given the larger wagering markets in NSW and Victoria (Forbes, 2017). Discussions with Tabcorp led to a confidential commercial arrangement that resolved Racing Queensland’s concerns. It concluded the merger would overall be “meaningfully beneficial” to Racing Queensland (Forbes, 2017: 10).

7.1.6 Racing and Wagering Western Australia (RWWA) and Tabcorp

RWWA, a public body corporate with the only licence to provide pari-mutuel services in Western Australia, had initial concerns about the Tatts–Tabcorp merger, questioning whether the merger would reduce the commercial attractiveness of Tabcorp continuing to pool with RWWA, given that the current Tabcorp/RWWA pooling agreement expires in 2024 (Burt, 2017). Also, RWWA was reliant on intellectual property rights in the TAB brand. As with the other states, removing one potential bidder (Tatts) could reduce competition for the WA TAB wagering licence. Discussions with Tabcorp led to a confidential agreement that provided RWWA “with a sufficient degree of certainty” (Burt, 2017: 37) over these concerns. RWWA concluded that the merger was "broadly positive" for Australia's racing industry and punters, particularly in "Tatts states" Queensland and South Australia (Burt, 2017: 7).

In identifying five ways that that the relationships between Tabcorp and the regulators and racing industry during the Tatts–Tabcorp merger process were multidirectional, we can establish more broadly that M&A activity involves multidirectional stakeholder relationships that goes beyond unidirectional relationships (how M&A activity affects stakeholders) that is the dominant research and practitioner focus.

7.2 Part 2 Finding: Relationships between regulators and the racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process

EBST conceptualises the organisation as a set of relationships between groups that have a stake in the activities that make up the organisation. Parmar et al. (2010: 43) argue that EBST deals with the nature of these relationships and their combined or divergent interests. It asks what are the critical aspects of each stakeholder relationship? What are the frequent disruptions in stakeholder relationships? How can the pursuit of corporate objectives be disrupted by the actions of unexpected groups? An organisation and its stakeholders share a "jointness of stakeholder interests", with EBST a means of conceptualising the interaction (Parmar et al., 2010: 43).

An important assumption in EBST is the concept of generalised exchange whereby a firm's relationship with one stakeholder group influences its relationships with other stakeholders (Cording et al., 2014). This conceptualisation of the dynamics around inter-stakeholder group relationships underpins our research approach.

The evidence suggests the relationships between the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process. The connection of this finding to the literature and evidence is shown in Table 4. The massive effort that Tatts and Tabcorp employed to secure racing industry support was largely to help overcome what they anticipated to be complicated regulatory hurdles through the ACCC and Tribunal. This process was vulnerable to opposition from the influential racing industry lobby (L2).

Racing industry evidence opposing the merger beyond Racing Victoria would have made regulatory approval for the merger far more difficult (L3). In addition to submissions to the ACCC, there were statements to the Tribunal from 23 participants in the racing industry, which the Tribunal described as "overwhelmingly supportive of the proposed merger or did not actively oppose the proposed merger" (Australian Competition Tribunal, 2017: 37). Racing

Victoria was one of three intervenors to use the Tribunal process to disrupt the merger process but was weakened in not having support from others in the racing industry.

By identifying that the relationships between the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process we can better address how relationships between key non-focal stakeholders disrupt M&A activity.

7.3 Part 3 finding: Relationships among the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process

Considering only inter-stakeholder relationships provides an incomplete conceptualisation of the way stakeholders interact. Stakeholders are not homogeneous groups; rather they differ widely in terms of interests, involvement, sophistication, and their capacity to disrupt. Intragroup specificity can lead to a more refined understanding of stakeholder relations (Winn, 2001). When exploring stakeholder groups, researchers risk ignoring many differences among the groups themselves (Harrison and Freeman, 1999). Wolfe and Putler (2002) find stakeholder literature is dominated by heterogeneity across, rather than among, stakeholder groups. Connecting this literature to the evidence, we find intra-stakeholder dynamics among both the regulators and racing industry disrupted, and were disrupted by, the merger process, shown in Table 4.

7.3.1 ACCC and Tribunal

Tabcorp's "unusually aggressive approach" (S7) in circumventing the ACCC and going directly to the Tribunal deliberately exploited the relationship between the ACCC and the Tribunal. Underpinning this relationship is their different considerations of a merger – the ACCC's SLC assessment is narrower than the Tribunal's 'net public benefit' assessment. Tabcorp's decision was taken with the early expectation that the ACCC process would be difficult and risky and its prospects around the Tribunal's public benefit grounds were strong (R1, L1, L3, F1).

The ACCC argued the merger "may cement Tabcorp's very strong position in wagering" due to, among other factors, removing Tatts as a wagering competitor, limited competition in future licence tenders, its ability to limit others from obtaining pooling arrangements, and the difficulty corporate bookmakers have in expanding to compete with Tabcorp. However, the Tribunal (2017) granted a merger authorisation for Tabcorp to acquire Tatts. The ACCC challenged the Tribunal's findings and never agreed with its final ruling. Their differences were stark. The Tribunal (2017: 191)

> rejects the contentions that there is likely to be an anti-competitive detriment, that there is evidence that any anti-competitive detriment is likely to generate dead-weight losses that exceed the asserted public benefit, and that the public benefits relied upon by Tabcorp have not been adequately verified. The objections raised by the ACCC (and the interveners) become immaterial once it is appreciated that there are no material detriments, and that the proposed merger is likely to encourage competition.

The ACCC (2017b: 1)did not apply for further judicial review of the Tribunal's decision. Announcing this the ACCC stated

> While the ACCC takes a different view from the Tribunal on the extent of the public benefits and detriments arising from the proposed merger, there is no avenue of appeal that would test the merits of the Tribunal's decision. The ACCC takes the view that the proposed merger of these two large and close competitors will lessen competition, but because they chose to apply to the Tribunal, the ACCC never concluded as to whether or not the lessening would amount to a substantial lessening of competition.

Tabcorp's exploitation of the different roles and relationships between the ACCC and Tribunal paid off in obtaining Tribunal authorisation for the merger.

7.3.2 Relationships among the racing industry PRAs

Our data reveals varying relationships among the racing industry during the Tatts–Tabcorp merger process. Widespread racing industry support for the merger was largely based on higher funding, increased competition and revenue in the wagering market, and the benefits of a national tote (Australian Competition Tribunal, 2017). The evidence "demonstrates a very general level of support for the proposed acquisition from a range of differently situated stakeholders" (Australian Competition Tribunal, 2017: 39). All PRAs except Racing Victoria eventually supported the merger with Racing Queensland and RWWA's support after they reached different agreements with Tabcorp designed to protect their interests. These different agreements reflected the various relationships among PRAs that played out during the merger process. For instance:

1) Racing Victoria's joint venture with Tabcorp (which Queensland did not have) made it easier for Tabcorp to play catch up with a new offer to Racing Queensland (L3).
2) Securing the support of Racing NSW, perceived as historically "tied to the hips" of Tabcorp (A1), helped the merging parties "bypass" Racing Victoria.
3) RWWA's support for the merger weakened Racing Victoria's opposition (T2).
4) Racing Victoria was surprised at the ease with which RWWA reached agreement with Tabcorp (Rac2) and would have liked other PRA support, however, the PRAs did not want to damage their commercial interests with long term funding secure given their

later maturing licences (L5). Racing Victoria was the most vulnerable PRA as its licence was significantly closer to expiry (2024).

5) Compared to the agreement with Racing Queensland, which only involved money and investment, RWWA won assurances around a single pool when it privatised (T2). For its part, Tabcorp provided no funding to RWWA to secure any advantage over future privatisation (T2).

These intra-PRA dynamics were well understood and used by Tabcorp to weaken Racing Victoria at the benefit of Racing Queensland and RWWA.

By highlighting ways that the relationships among the regulators and racing industry disrupted, and were disrupted by, the Tatts–Tabcorp merger process we can better address how relationships among key non-focal stakeholders disrupt M&A activity.

7.4 Finding 4: Regulator and racing industry relationships during the Tatts–Tabcorp merger process were unevenly balanced

The three findings presented above showing multidirectional stakeholder relationships can be constructed around balance terms. Balance is a critical stakeholder principle as it represents the principal mechanism by which managers pay attention to, elicit, and maintain the support of stakeholder groups with disparate needs and wants (Reynolds et al., 2006: 286). EBST does not give primacy to one stakeholder group over another, "though there will surely be times when one group will benefit at the expense of others" (Evan and Freeman, 1988: 314).

This balancing process "includes behaviours that bring some kind of resolution to conflicting stakeholder needs or requests" (Reynolds et al., 2006: 286). Balancing stakeholder relationships is a "process of assessing, weighing and addressing" competing claims of those who have a stake in the actions of an organisation (Reynolds et al., 2006: 286). It is about decision making rather than distribution of financial outputs (Parmar et al., 2010).

The "balancing act" required by stakeholders' competing and conflicting claims forces managers to prioritise stakeholder interests (Crawford et al., 2011). Mitchell et al. (1997: 854) propose managers allocate attention to stakeholders based on their salience, defined as "the degree to which managers give priority to competing stakeholder claims." They thus locate perceptions of power and legitimacy as core to identifying and classifying stakeholders' relationship with the firm (Crawford et al., 2011). Mitchell et al. (1997) argue that, when combined with the urgency of their claim or the importance of their relationship with the firm, "stakeholders can be placed in a dynamic model of expected behavioural patterns with the firm that informs the degree of priority that managers will grant them" (Crawford et al., 2011: 1),

We apply Mitchell et al.'s (1997: 866) typology of stakeholder salience to identify "who or what really counts" (see Figure 1; Section 4.5.1). Table 3 (column 8) shows the importance or prominence of regulator and racing industry sub-groups during the Tatts–Tabcorp merger process, that is, their salience. Mitchell et al. (1997: 880) aim to expand understanding beyond legitimacy to incorporate stakeholder power and urgency of a claim: "Power and urgency must be attended to if managers are to serve the legal and moral interests of legitimate stakeholders" (Mitchell et al., 1997: 882). Attending to power and urgency allows us not only to identify who counts but to examine the balance in stakeholder relationships.

7.4.1 Identifying which regulator and racing industry stakeholders counted during the Tatts–Tabcorp merger process

The ACCC is shown in Table 3 to have had moderate dependent salience during the Tatts–Tabcorp merger process in terms of Mitchell et al.'s (1997) typology. As seen, the ACCC had significant power in disrupting and influencing the process, not least by forcing the sale of Odyssey and appealing the initial Tribunal decision. But ultimately it had no power to influence the outcome. The Tribunal's broader net benefit assessment was rejected by the ACCC even though the ACCC never made a final determination. The ACCC had legitimacy and urgency, rendering it a dependent stakeholder.

The Tribunal is shown in Table 3 as being a definitive regulator with high salience to the merging parties in terms of Mitchell et al.'s (1997) typology. In having the legal authority to authorise the merger (subject to judicial review), the Tribunal had the power, legal legitimacy, and urgency to break the merger. It was arguably the most salient stakeholder in the merger process.

Perhaps the most curious anomaly was Racing Victoria**,** which was both large in size and influential. Despite this it was never able to influence the outcome of the merger. By Mitchell et al.'s (1997) typology Racing Victoria had no power but legitimacy and urgency, making it a moderate or dependent stakeholder.

Table 3 shows that Racing NSW, Racing Queensland and RWWA were definitive stakeholders with high salience to the merging parties. In pushing Tabcorp to reach agreements with them in exchange for shifting their initial opposition or concerns, Racing Queensland and RWWA demonstrated power, legitimacy and urgency.

7.4.2 Balancing regulator and racing industry stakeholder relationships during the Tatts–Tabcorp merger process

Identifying which stakeholders counted during the Tatts–Tabcorp merger process allows us to examine key relationships in balance terms, reflected in Table 3 (Column 9). In being authorised to merge, Tabcorp balanced its relationship with the Tribunal. The merging parties acutely understood and meticulously prepared the merger case to satisfy the concerns of the Tribunal. Their strategy anticipated short-circuiting the ACCC, winning broad stakeholder support, and getting the merger assessed on a net public benefit test.

The ACCC's relationships with Tabcorp and the Tribunal were left out of balance. The ACCC was outmanoeuvred and disempowered in the legal process by Tabcorp appealing to the Tribunal, which applies a different regulatory test.

Tabcorp's relationship with Racing Victoria was also out of balance. Racing Victoria's concerns and suggestions were rejected by the Tribunal and marginalised in the racing industry. Tabcorp barely attempted to balance Racing Victoria's interests.

The balances in Tabcorp's relationship with Racing NSW were embedded in historical relations and ties that persisted throughout the merger process. After initial concerns about the merger from Racing Queensland and RWWA their relationships with Tabcorp were balanced. These parties were able to negotiate and compromise around their conflicting concerns and reach commercial agreements.

Understanding the "other" in these unevenly balanced stakeholder relationships was fundamental to the merger proceeding. The concerns of the regulators and racing industry were constructed through their relationships – multidirectional and involving inter- and intra-group dynamics – that were unevenly balanced during the Tatts–Tabcorp merger process.

Establishing that regulator and racing industry relationships during the Tatts–Tabcorp merger process were unevenly balanced contributes to better identifying and addressing stakeholder relationship implications of M&A activity. This is done through identifying which stakeholders count during M&A activity and examining key relationships in balance terms,

7.5 General finding: We can better identify and address stakeholder relationship implications of M&A activity by examining balances around these relationships

The four findings presented above demonstrate that the implications of regulator and racing industry relationship during the Tatts-Tabcorp merger process can be identified and addressed through four interrelated dynamics - their multidirectional (Section 7.1), inter-group (Section 7.2), intra-group (Section 7.3) and balance (Section 7.4) relationships. Understanding and portraying how and why these regulator and racing industry relationships during the Tatts-Tabcorp merger process occurred the way they did, the processes and mechanisms involved, and understanding their settings including the lived experiences of the stakeholders allows us to translate the particular to the general (Parker and Northcott, 2016). Our general finding is that stakeholder relationship implications of M&A activity can be better identified and addressed by examining balances around these relationships. This involves identifying and addressing stakeholder relationships as disruptive, and disrupted by, M&A activity through four interrelated dynamics – their multidirectional, inter-group, intra-group and balance (Section 7.4) relationships.

8 CONCLUSION

By providing a rich detailed qualitative analysis of the regulator and racing industry relationships during the Tatts–Tabcorp merger process, we were able to identify and address stakeholder relationship implications of M&A activity by examining balances around various aspects of these relationships. Conceptualising the M&A process as a set of relationships with regulator and racing industry groups we have developed a stakeholder framework (Table 3) reflecting each of their stakes, changing reactions, and salience. A stakeholder approach helped make explicit the conflicting and disrupting relationships. In doing so we extend the literature identifying four interrelated characteristics of relationships during the case study merger process: multi-directional, between the regulators and racing industry; inter-group, among regulators (the ACCC and Tribunal); and intra-group, among the racing industry PRAs. The complex web of these relationships involved more than a balance of benefits and costs or winners and losers, but interests, power, dynamics and processes where outcomes are not binary but unevenly balanced. Such a dialectic understanding of stakeholder relationships around M&A activity challenges the view that M&A activity is static, linear and subject to rational modelling.

The literature review identified public concerns about M&A activity as including market concentration, power and economic inequality. There were net public benefit concerns in relation to the Tatts–Tabcorp merger, which were fought through the Tribunal process. The

Tribunal decided the merger would lead to industry consolidation but found there was net public benefit.

The literature review also highlights responses from business around challenges to shareholder primacy and their societal role. It is clear that Tatts and Tabcorp realised from the outset that the Tribunal's authorisation of their merger, focused on the net public benefit, would require stakeholder support well beyond shareholders. The Tribunal (2017: 191) highlighted benefits to the racing industry and consumers, dismissing shareholder primacy. "The merger is not just about the millions of dollars in synergies that will be shared among the shareholders." Tatts and Tabcorp's stakeholder prioritisation during the merger process is arguably unprecedented and highlights how business leaders are under pressure to rethink the role of business in society. By accepting and strategizing around stakeholder primacy beyond shareholders, the Tatts–Tabcorp merger case provides insights into how a stakeholder orientation was essential for a merger impacting powerful non-shareholder interests.

Our research has implications for research, practice and policy. First, we demonstrate M&A activity as process outcomes of interconnected stakeholder concerns and relationships involving ambiguity, uncertainty, conflicting goals, political and other influences. Second, we pave the way to understand M&A activity as social, economic and political processes. These processes are integrally connected to the growing public concerns about the sustainability and desirability of the market economy and societal role of business. This has relevance not only to mergers from announcement to implementation but to pre- and post-merger analysis, thus contributing to other major areas of M&A theory (e.g. integration, performance).

In addition to contributing to M&A theory, we broaden EBST into M&A research. First, to consider the balance of concerns of stakeholder relationships we incorporate an understanding of stakeholder relationships as multidirectional between and among stakeholders. Second, we focus on stakeholder groups in relationships, not on the relationships themselves. Third, the stakeholder group relationship framework expands EBST by providing a theoretical basis for investigating the net public benefit of M&A activity. These contributions expand the scope of EBST into M&A by facilitating a more dynamic and realistic understanding of what happens between and among stakeholders during M&A activity to identify and address their concerns. Making explicit a new world opens possibilities to transform the way of seeing, framing and understanding stakeholder relationships around M&A activity.

We contribute to practice by facilitating awareness of how M&A activity gives rise to concerns around public benefits and stakeholder relationships. These concerns are often unnoticed by practitioners when focusing on the more explicit obstacles and motives of M&A activity. By including stakeholders, we draw attention to M&A activity as an amalgam of dynamic, ambiguous and fluid processes involving multiple stakeholders with multiple ethical concerns.

By providing an understanding of how a merger process has public consequences our paper contributes to the public policy debate about the net public benefits of M&A activity at a time of rising concerns about the market economy. The ACCC, for instance, is playing an “advocacy role to point out that there are a number of downsides to a concentrated economy. The more the community realises this, the more the legal community will; one influences the other” (Sims, 2020). The paper is located in this context of public interest and concern in M&A.

Developing both a narrower and broader stakeholder analysis around M&A activity we leave to future research. An analysis that digs deeper by investigating a stakeholder group or subgroup could yield greater nuance and perceptions than this paper. Similarly, a macro analysis incorporating more stakeholders and how they interact around a web of relationships would develop this paper’s context and complexity. Our paper points to how such research opportunities can be investigated.

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Appendix 3

Appendix 3 of this thesis have been removed as it contains published material. Please refer to the following citation for details of the article contained in these pages.

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Appendix 4

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Managing Stakeholder Relationships During the Tatts / Tabcorp Merger Process

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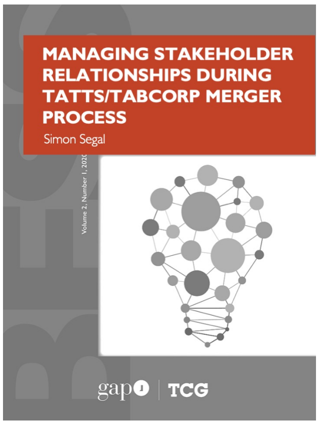
Abstract

Mergers and acquisitions are significant events in the life of corporations, with complicated and disruptive social, economic and political consequences for their stakeholder relationships. PhD research candidate Simon Segal examines the complex balancing of M&A stakeholder management through a case study of the mega-merger of Australia's two biggest lottery firms. The views expressed are his own.



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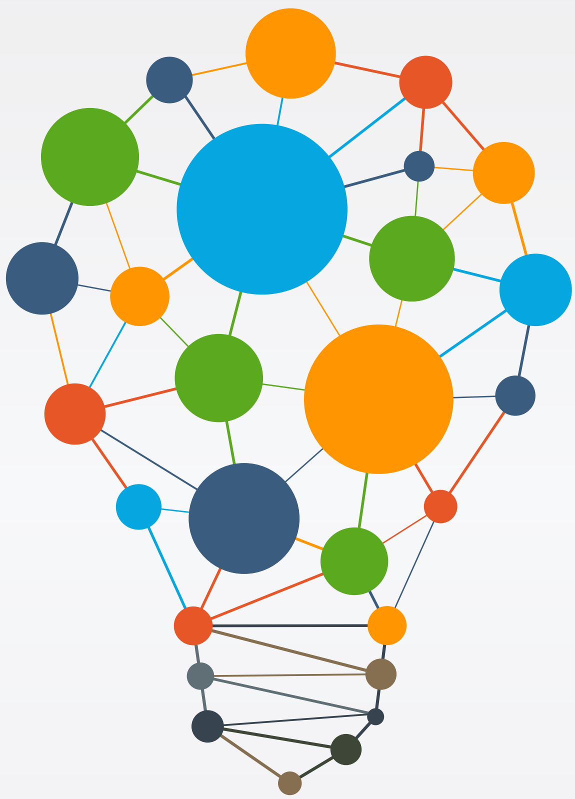

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ARTICLE

MANAGING STAKEHOLDER RELATIONSHIPS DURING THE TATTS/TABCORP MERGER PROCESS

Simon Segal

Mergers and acquisitions are significant events in the life of corporations, with complicated and disruptive social, economic and political consequences for their stakeholder relationships. PhD research candidate Simon Segal examines the complex balancing of M&A stakeholder management through a case study of the mega-merger of Australia's two biggest lottery firms. The views expressed are his own.

1. INTRODUCTION

As a massive global phenomenon, mergers and acquisitions (M&As) are complex economic, political, and social events with fundamental stakeholder management implications. Global M&A volume has been valued at slightly over the US$4 trillion for each of the past two years.[1] M&As have dramatic and disruptive consequences on a firm's organisational life;[2] growth strategy;[3] strategic renewal;[4] forms of change;[5] and ability to meet market challenges.[6] Various stakeholder group relationships (referred to as stakeholder relationships in this paper) are affected by and affect M&As in different ways, often complementing, often conflicting.

Extending the context of M&A research to its stakeholder relationships helps broaden our understanding of the complexities, opportunities, and obstacles that surround M&As.[7] Meglio

1. Dealogic, 2020
2. Larsson and Finkelstein, 1999
3. Hitt, Harrison and Ireland, 2001
4. Bruner, 2004
5. Cartwright, Teerikangas, Rouzies and Wilson-Evered, 2012
6. Agrawal and Jain, 2015
7. Anderson, Havila and Nilsson, 2013, p. 8

and Risberg[8] argue that 'M&As are fraught with instabilities, ambiguities, politicisation, and fragmentation that traditional research approaches cannot do justice to'. Therefore, M&As can take place in the context of incidents, activities, and actions that continually unfold with implications for various stakeholders.[9] The numbers-logic tradition in corporate planning cannot suggest stakeholder reactions to a significant organisational transition, such as an M&A.[10] Yet the context of the M&A process, and the surrounding stakeholder relationships, are too often researched and managed in isolation. In this paper, I connect stakeholder research with M&A research.

From a previous analysis[11] we found that research linking stakeholders and M&A research is fragmented and divergent. Although more and more varied stakeholders are increasingly being investigated through a diverse range of analytic approaches, research methods, and disciplines, the analyses in these studies are still unidirectional examinations of how M&As affect stakeholders, not how stakeholders affect M&As. They also fall short of investigating inter- and intra-group stakeholder relationships. Thus, we have gained little insight into the complex web of stakeholder relationships during an M&A process. Against such shortcomings, there remains a need to analyse context and relationships concurrently to understand how stakeholder relationships around a merger process are managed. I have undertaken this analysis task through a case study on the AU$11 billion mega-merger process between the Australian gaming groups Tatts Group Ltd (Tatts) and Tabcorp Holdings Ltd (Tabcorp) over 2016/17. (Note that, hereafter, all currency is in AUD unless specified otherwise).

The research question addressed in this paper is: *How was Tatts and Tabcorp's stakeholder management affected by, and how did it affect its merger process?* I examine documents and use interview evidence from the case merger. I identify several key stakeholder relationships in this merger process that were disrupted and disruptive to offer insights into how this complex web of relationships was managed.

I draw on Heidegger's philosophy of hermeneutics[12] to make theoretical sense of the relationships between stakeholders and the M&A process.[13] In Heideggerian terms, relationships refer to ways of assembling the parts of a phenomenon: a contextual phenomenon in which the parts are related to each other.[14] Each stakeholder relationship is constructed through their relationship with different stakeholders, as well as to the whole (merger process). Gadamer[15] explains: 'It is a circular relationship…The anticipation of meaning in which the whole is envisaged becomes explicit understanding in that the parts, determined by the whole, themselves also determine this whole'. I find that managing stakeholder group relationships during the Tatts/Tabcorp merger process involved both balancing and disempowering key stakeholder groups.

With this analysis, I connect two research fields – stakeholders and M&As – helping to solve complex problems around managing stakeholder relationships during an M&A process. Viewing M&A processes in the context of fluid and dynamic relationships allows us to identify those relationships explicitly. The originality of this research lies in accommodating the complexity of M&A processes,

8. Meglio and Risberg, 2010, p. 90
9. Meglio, 2015, p. 165
10. Lamberg, Pajunen, Parvinen and Savage, 2008
11. Segal, Guthrie and Dumay, 2020
12. Heidegger, 1927
13. Segal, Guthrie, Dumay and Segal, 2019
14. Segal, 2016
15. Gadamer, 1976, p.117, cited in Myers, 1995

which involve a web of defined stakeholder relationships that have to be managed to ensure the M&A proceeds.

The rest of this paper is organised as follows. Section 2 contains a literature review, which tracks progress towards a stakeholder perspective of M&A analysis leading up to the research question. Section 3 outlines the research methods used. The Tatts/Tabcorp merger case history is provided in Section 4. Sections 5 and 6 provide an analysis and discussion of the merger process. The paper concludes in Section 7 with a summary of the evidence and findings in response to the research question.

2. M&As AND THE STAKEHOLDER LITERATURE

This literature review tracks and explores the stakeholder perspective of M&A analysis to arrive at the research question. Segal, Guthrie and Dumay[16] highlight that well before the first merger wave of 1895–1904,[17] economists were aware of the social, political, and economic consequences of market concentration. For instance, Adam Smith[18] saw economic concentration as a distortion of the market's natural ability to allocate society's resources optimally. Karl Marx[19] outlined how concentrating production in fewer hands can only occur with the simultaneous creation of its opposite – the poverty and misery of many.

While early conceptualisations were not specifically M&A-focused, they anticipate the broader societal consequences of market concentration as an outcome of what would evolve into corporate M&As.

These anticipations of the social, political, and economic aspects of M&As are consistent with contemporary conceptual understandings of a more stakeholder-engaged corporate and financial world. This is manifested in terminology like 'socially inclusive' economic growth that is developing around the Sustainable Development Goals set by the United Nations in 2015 for 2030.[20] Stiglitz[21] talks about 'progressive capitalism', based on an understanding of societal wellbeing in response to the 'neoliberal fantasy' (e.g., that unfettered markets will deliver prosperity to everyone). Yet M&A scholars seldom incorporate such conceptual understandings into their inquiries despite the broad consequences of M&A activities.[22] An incentive related to M&A as to why business leaders are feeling pressure to rethink their societal role is research showing an overall positive association between an acquirer's attitudes towards stakeholders and acquisition performance.[23]

Studies proposing stakeholder analysis in the context of M&A research have been undertaken from different perspectives,[24] including corporate responsibility,[25] process[26] and stakeholder frameworks.[27]

16. Segal, Guthrie and Dumay, 2020
17. Bruner, 2004
18. Smith, 2005
19. Marx, 2004
20. Sachs, 2015, p. 4
21. Stiglitz, 2019
22. Segal, Guthrie and Dumay, 2020
23. Bettinazzi and Zollo, 2014
24. Segal, Guthrie and Dumay, 2020
25. Barone, Ranamagar and Solomon, 2013; Borglund, 2012; Deng, Kang and Low, 2013; Dorata, 2012; Waddock and Graves, 2006
26. Lamberg et al., 2008; Meglio, King and Risberg, 2015
27. Anderson et al., 2013; Cording, Harrison, Hoskisson and Jonsen, 2013; King and Taylor, 2012; Madhavan, 2005; Martirosyan and Vashakmadze, 2013; Meglio et al., 2015

A stakeholder approach to M&A analysis also has precedent in various case studies, which reflects the explanatory power of single-case research to M&A analysis. Case studies have researched: the suppression of growing tensions between shareholders and other stakeholders;[28] how initial stakeholder relationships largely explain unexpected changes;[29] the importance of stakeholder briefings in negotiating M&As;[30] the influence of stakeholder concerns;[31] the increasing importance of stakeholder interests compared to shareholder interests;[32] the need for greater focus on weaker stakeholders;[33] changes to inter-group dynamics between internal and external stakeholders;[34] and the failure to consider neglected stakes put at risk by an M&A.[35] Merger case studies also reveal stakeholder concerns as critical to the failed merger between United Airlines and US Airways[36] and progressing Pernod Ricard's acquisition of Vin & Sprit.[37] A structured literature review (SLR) by Segal, Guthrie, and Dumay[38] connecting stakeholders and M&A processes shows that few studies have been dedicated to examining the relationships between stakeholders and M&As, especially prior to the late 1990s. And, even though M&A research is now rapidly expanding to include diverse stakeholders, analytic approaches, research methods, disciplines, etc., accounting and finance publications are still mostly ignoring non-shareholder stakeholders in researching M&A. The literature is dominated by unidirectional analyses that primarily consider the effect M&As have on stakeholders, not the impact stakeholders have on M&As. The focus is on the close connections between stakeholders and the organisation under study, and inter- and intra-group relationships between stakeholders are generally ignored. Instead, stakeholders are treated as homogeneous and, therefore, undifferentiated. Thus, research falls short in more explicitly eliciting the complex web of relationships between an M&A process and the various stakeholders involved. Consequently, M&A research does not capture the implications of stakeholder management in the merger process.

These research gaps lead to the research question: *How was Tatts and Tabcorp's stakeholder management affected by, and how did it affect, its merger process?*

3. RESEARCH METHODOLOGY: A SINGLE CASE STUDY

The case is a single case study method which combines a documentary analysis and semi-structured interview evidence.

3.1 Single case study

Yin[39] notes that 'the distinctive need for case study research arises out of the desire to understand complex social phenomena. A case study allows investigators to focus on a case and retain a holistic and real-world perspective'. He describes case studies as a social science methodology that can answer 'how' or 'why' questions about a contemporary phenomenon where the researcher has little control over behavioural events. I seek to understand how Tatts and Tabcorp's stakeholder management was affected by, and affected, its merger process.

28. Lockhartand and Taitoko, 2005
29. Lamberg et al., 2008
30. Konstantopoulos, Sakas and Triantafyllopoulos, 2009
31. Ciambotti, Aureli and Demartini, 2011
32. Borglund, 2012
33. Barone et al., 2013
34. Łupina-Wegener, Schneider and van Dick, 2015
35. Meglio, 2016
36. Lamberg et al., 2008
37. Borglund, 2012
38. Segal, Guthrie and Dumay, 2020
39. Yin, 2014, p. 3

The case is the merger between the Australian gaming groups Tatts and Tabcorp. Announced on 19 October 2016, the merger was to combine Australia's two largest gambling groups into a diversified gambling entertainment group with a pro forma enterprise value of $11.3 billion. The analysis covers the period from when the merger was announced to its implementation in December 2017. This merger is an appropriate case to study stakeholder relationships in an M&A process because of its economic, political, and social significance; its size and complexity; the extensive data available from multiple sources (documentary and interviews); and the many stakeholders it involved.

3.2 Data collection

The evidence for the case was drawn from document analysis and semi-structured interviews. The documents provided essential information for understanding the events surrounding the case, particularly the stakeholder engagement processes. The interviews provided information to amplify the insights arising from the documentary research.[40]

Documentation

Given the intense public scrutiny surrounding the merger, there was extensive documentary material to draw on. The parties released merger announcements,[41] the agreement,[42] an information booklet and an independent experts report,[43] as well as annual reports, press releases, and shareholder updates. The high profile merger also attracted extensive interest from the media, brokers, analysts, and proxy advisors, which generated further data. Most notably, the decision to authorise the merger, which would usually have been handed down by the Australian Competition and Consumer Commission (ACCC), was referred to the Australian Competition Tribunal (Tribunal), resulting in evidence from 84 witnesses and interested third parties. This was supported by expert economic and industry evidence commissioned by Tatts and Tabcorp.

A list of the documents analysed is given in Appendix 1 (see page 64).

Semi-structured interviews

Interviews can provide information to amplify insights found from documents.[44] However, 'the challenge of interview data,' note Eisenhardt and Graebner,[45] 'is best mitigated by data collection approaches that limit bias'. This involves 'using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives'. Therefore, I conducted 32 semi-structured interviews with key decisionmakers in a range of stakeholder organisations, as shown in Table 1 (see page 42).

Nearly all of the interviewees had first-hand involvement in decision-making during the merger process. These included: executives (T1, T2); bankers (F1, F2), lawyers (L1–L4); and communications advisors (CA1); shareholders (S1-S8); racing industry representatives (Rac1, Rac2); regulators (R1); competitors (C1–C3); and licensed gaming venues (G1). The remaining interviews held with experts (E1–E5), an analyst (A1), and investment bankers (IB1, IB2).

The interviews were conducted via a 30–60-minute phone call and were recorded. They were semi-structured with a localist approach, defined by

40. Barone et al., 2013
41. Tabcorp, 2016b
42. Tatts, 2016a
43. Tatts, 2017c
44. Barone et al., 2013
45. Eisenhardt and Graebner, 2007, p. 28

Qu and Dumay[46] as enhancing understanding of the interviews in a social context. This means the conversation can be treated as more than a tool for collecting data. As new data emerged, some interviewees were re-interviewed about the new evidence in an iterative process of going back and forth. This question-answer interview and response pattern built a dynamic narrative of the merger process, consistent with a hermeneutic approach to building understanding.

TABLE 1 INTERVIEW DATA

JOB FUNCTION/ REPRESENTATIVE	CODE	CODING
Analyst	A	A1
Communication advisor	CA	CA1
Competitor	C	C1–C3
Expert	E	E1–E5
Banker	F	F1, F2
Independent investment banker	IB	IB1, IB2
Lawyer	L	L1–L4
Licensed gaming venue	G	G1
Racing industry	Rac	Rac1, Rac2
Regulator	R	R1
Shareholder	S	S1–S8
Executive	T	T1, T2
Total		**32**

3.3 Data sorting

The stakeholder relationships involved in the Tatts/Tabcorp merger are listed in Table 2.

From the documentary and interview evidence, I identified six stakeholder relationships that could have disrupted the Tatts/Tabcorp merger process: the shareholders (Element A), Pacific Consortium (B), the racing industry (C), the regulators (D), competitors (E), and advisors (F). Further, some of these stakeholder groups comprise relevant subgroups, as highlighted in the third column. Column 4 shows the group's initial reaction to the merger, followed by their concerns (Column 5), their final response to the merger process (Column 6), and the outcome of the merger process for them (Column 7). The last column of Table 2 draws on the typology of Savage, Nix, Whitehead, and Blair[47] to examine how the most potentially disruptive stakeholder relationships were managed during the merger process, which is discussed in detail in Section 5.2. Segal, Guthrie and Dumay et al.[48] apply Mitchell, Agle, and Wood's[49] typology of stakeholder salience to identify 'who or what really counts'. However, Savage et al.'s typology[50] was specifically developed to help devise strategies for assessing and managing stakeholders, making it more appropriate for the stakeholder management focus of this paper.

3.4 Data interpretation

Following Creswell,[51] this paper is 'interpretive' where researchers interpret what they see, hear, and understand 'to make sense of (or interpret) the meanings others have about the world'. I adopted a hermeneutic form of interpreting what was read and heard from the literature and interview data. This involved seeing the parts of phenomena through their relationship with each

46. Qu and Dumay, 2011
47. Savage, Nix, Whitehead and Blair, 1991
48. Segal, Guthrie, Dumay and Segal, 2019
49. Mitchell, Agle and Wood, 1997
50. Savage et al., 1991
51. Creswell, 2013, p. 123
52. Segal, 2016, p. 74

TABLE 2 STAKEHOLDER RELATIONSHIPS DURING THE TATTS/TABCORP MERGER PROCESS

ELEMENT	STAKE-HOLDER	STAKE-HOLDER SUB-GROUPS	INITIAL REACTION	CONCERNS	FINAL REACTION	OUTCOME	SAVAGE STAKE-HOLDER TYPE[1]
A	Shareholders		Largely supportive		Largely supportive	Accepted merger	1
		Activists	Oppose	Doubts over synergies, undervalued Tatts	Oppose	Accepted merger	2
B	Pacific Consortium[2]		Hostile proposals	Needed Tatts support	Proposals lapsed	Proposals rejected	3
C	Racing industry		Largely supportive		Largely supportive	Accepted merger	4
		Racing Victoria[3]	Oppose	Less competition for Vic Tab licence, anti-competitive leveraging through Sky, reduced industry funding, licence and retail outlet arbitrage, export revenue loss	Oppose	Dropped case at Tribunal appeal	3
		Racing Queensland	Oppose	Reduced focus on Queensland racing industry	Support	Commercial agreement	4
		Racing and Wagering WA	Concern	Less attractive for Tabcorp to pool with RWWA; remove bidder for WATAB wagering licence	Support	Commercial agreement	4
D	Regulators	Tribunal	Support	Merger in public interest	Support	Allowed merger	4
		ACCC	Concern[4]	Harm competition in Queensland electronic gaming machine services	Oppose	Odyssey sold, lost Tribunal appeal	4
E	Competitors	CrownBet[5]	Oppose	Reduced competition; reduced output; lower growth; leakage to offshore betting operators	Support	Agreed access to Sky racing stream	4
		Racing.com	Oppose	Remove rival, more power to leverage wagering JVs	Oppose	Dropped case at Tribunal appeal	3
F	Advisors		Support		Support	Facilitated merger	1

1. Savage, Nix, Whitehead, and Blair (1991) typology identifying four different types of stakeholders, shown in Figure 1
2. The Pacific Consortium comprised: First State Superannuation Scheme; Morgan Stanley Infrastructure Inc. as adviser to and manager of North Haven Infrastructure Partners IILP; one or more affiliates of Kohlberg Kravis Roberts and Co. L.P.; and Macquarie Corporate Holdings
3. Joint Tribunal submission by Racing Victoria, Harness Racing Victoria, and Greyhound Racing Victoria
4. The ACCC's Statement of Issues outlined five further issues that 'may raise concern': removal of potential supplier of totalisator; pooling services; removal of bidder for totalisator and retail exclusivity rights; combining Sky Racing with Tatts' retail wagering operations; potential foreclosure of competing suppliers of electronic gaming machine systems and services in NSW and Queensland; and reduced competition in the supply of electronic gaming machine repair and maintenance services in Victoria
5. Other corporate bookmakers – Sportsbet, Betfair, William Hill, Ladbrokes, Bet365, and Unibet – provided letters in support of CrownBet's Tribunal application

other in a referential whole.[52] An interpretative approach is appropriate because some aspects of the phenomenon require interpretation to learn about the sense-making process of its participants.[53] As an interpretive analysis, this qualitative approach is interventionist research (IVR);[54] it deploys theory to design and implement a framework, and the results are analysed from both a theoretical and practical perspective. 'It is an applied discipline owing its existence to practice... IVR has remedial potential to address the research-practice-relevance gap.'[55] As Creswell[56] highlights, interpretation in qualitative research can take many forms. It can be adapted to suit different types of designs and is flexible enough to convey 'personal, research-based, and action meanings'.

3.5 Findings

In line with Yin's[57] case study method, the case findings were developed by triangulating aspects of the literature, theory, and the case evidence to improve the credibility of the conclusions. This was a non-linear iterative process where the findings informed and reinforced each other in a back and forth way. Creswell[58] suggests working back and forth between the themes and the database (including interviewing and re-interviewing) until propositions are established.

Converging findings from different sources increases construct validity. More than that, Yin[59] suggests this not only reflects the data but also helps to shape the data by sharpening what should be collected and analysed, which helps to organise the case study. Theoretical propositions stemming from 'how' questions can be beneficial in guiding case study analysis. This back and forth is also consistent with Eisenhardt and Graebner,[60] who suggest 'pattern matching' between theory and data.

4. THE MERGER BETWEEN TATTS AND TABCORP

This section outlines the merger process between Tatts and Tabcorp, describing the background to the merger, the merging parties, the merger rationale and key risks around regulatory hurdles and rival bids. The merger took a longer-than-expected 14 months to close, mainly because of disruptions by regulatory issues and competing bids.

4.1 Background to the merger

In November 2015, Tatts and Tabcorp confirmed that talks to agree on terms for a nil-premium share-swap merger of equals (MOE) had failed. In 2016, negotiations resumed, and, in October of that year, the merger was announced. The agreement came on the back of Tatts' struggling operating performance (S4, S6, S7, F1) and a higher Tabcorp share price that enabled Tabcorp to sweeten its offer premium (L1, L2). Tabcorp also backed their own more robust management, which was well regarded (E3, F3).

In addition to engaging with Tabcorp in 2015 about a potential MOE, the Tatts board had considered numerous business strategies to improve its performance. These included: discussions held with a rival bidder Pacific Consortium (Pacific); considering its strategic landscape and alternatives; an assessment of potential cost savings; demerging one or more of its businesses or selling assets; and maintaining the status quo.[61] After weighing these alternatives, the Tatts board concluded that Tabcorp was the most attractive option.

53. Larkin, Watts and Clifton, 2006
54. Baard and Dumay, 2018
55. Ibid., pp. 2, 4
56. Creswell, 2013, p. 123
57. Yin, 2014, p. 130
58. Creswell, 2013
59. Yin, 2004
60. Eisenhardt and Graebner, 2007
61. Tatts, 2017c

4.2 Merging parties

Tatts

Tatts was itself the outcome of a 2006 merger between listed Australian gambling groups UNiTAB Ltd and Tattersall's Ltd. At the time of the merger announcement, Tatts was an ASX-registered provider of gambling services with a $5.3 billion market capitalisation and around 2,350 employees across its lottery, wagering, and gaming businesses. Independent experts valued it at $5.4–5.9 billion.[62] In FY17, Tatts reported revenue of $2.8 billion, EBIT of $386 million, racing industry fees of $190 million, and lottery and wagering tax payments of $1.15 billion to the state government and $217 million federally.[63]

Tabcorp

At the time of announcing the merger, Tabcorp was a gambling entertainment company with $4 billion market capitalisation. Independent experts valued the company at $3.8–4.3 billion.[64] Tabcorp comprised three core businesses – wagering and media, Keno, and gaming services – and employed over 3,000 people. In FY17, Tabcorp's revenue was $2.2 billion, and its EBIT was $102 million. It paid $406 million in gambling/general sales taxes, $46 million in income tax, and returned $813 million to the racing industry.[65]

4.3 Merger rationale

In justifying the merger, Tabcorp[66] highlights three 'significant structural changes' in Australia's wagering industry. These were the technology shift from retail sales channels to digital, the model shift from totalisator to fixed-odds betting, and the market shift from racing to sports. Tabcorp[67] identified 'substantial synergies' that would benefit a range of stakeholders, such as state racing bodies, retail venues, sporting bodies, and governments. Tatts[68] saw the merger as a way to create a larger, more efficient company offering improved products while reducing costs and increasing revenue. These efficiencies would also directly benefit the racing industry through existing revenue and profit-sharing arrangements.

The independent experts commissioned by Tatts found the merger would create a diversified gambling entertainment company spanning lotteries, betting, and gaming. Additionally, it would net a suite of long-dated licences (except in Victoria); a more balanced portfolio of businesses; and a depth of scale in the capabilities that underpin global competition and growth.[69] Further, a unified TAB brand would provide 'arguably the best opportunity' to turn around Tatts' wagering business and meet competitive challenges from corporate bookmakers.[70] This strengthening of the company would be underpinned by aligning the product offerings, concentrating marketing on a single brand, consolidating technology expenditure and improving its capacity, better margins as a result of synergy benefits, and more robust racing industry as a result of increased funding and better products.

4.4 Key risks

Regulatory hurdles

There were conditional regulatory approvals for the merger. In March 2017, the ACCC released its Statement of Issues (SOI) with one concern and five other issues it identified that 'may raise concern'.[71] To address these issues, Tabcorp committed to

62. Ibid.
63. Tatts, 2017b
64. Tatts, 2017c
65. Tabcorp, 2017b, p. 9
66. Tabcorp, 2017a, p. 29
67. Tabcorp, 2017a, p. 17
68. Tatts, 2017a
69. Tatts, 2017c
70. Ibid., p. 121
71. ACCC, 2017b

and ultimately divested from Odyssey Gaming Services (Odyssey), a Queensland poker machines monitoring company (aka slot machines, colloquially known as 'pokies'). The ACCC's concern was that the proposed merger was likely to substantially lessen competition in Queensland for the supply of pokies monitoring, repair, and maintenance services by combining Maxgaming and Odyssey (subsidiaries of Tatts and Tabcorp respectively). Notably, the ACCC's five potential concerns were never satisfied. Four days after the SOI release, the merging parties decided to bypass the ACCC and applied directly to the Tribunal to authorise the proposed merger.

Besides Tatts, three other parties were granted leave to intervene in opposition to the transaction – CrownBet, Racing.com, and the Victorian racing industry (comprising Racing Victoria, Harness Racing Victoria, and Greyhound Racing Victoria as joint intervenors). Attention was placed on concerns surrounding the merger's impact on the wagering market, the racing media, and the sale of exclusive state wagering licences.[72]

The Tribunal's legal test is more comprehensive than the ACCC's because it includes a 'net public benefit' assessment, whereas the ACCC's test only evaluates the risk that a merger will substantially reduce competition. Focusing on concerns over the merger's impact on the wagering market, the racing media, and the sale of exclusive state wagering licences, the Tribunal authorised the merger. 'The benefits to the public… are substantial. The detriments identified by the ACCC and the interveners are unlikely to either arise or are not otherwise material.'[73] Racing.com and the Racing Victoria dropped their case. CrownBet and the ACCC separately applied for judicial review of the Tribunal's original authorisation. This application was upheld and remitted back to the Tribunal for further consideration but ended with approval for the merger to proceed.

The ACCC did not apply for further judicial review of the Tribunal's decision,[74] and CrownBet dropped the threat of taking the Tribunal decision to the full Federal Court for a judicial review when it reached an agreement with Tabcorp over access to the stream vision of Tabcorp's Sky Racing channel.[75] C1 explains this was 'very significant' for its online operations and profitability, although concerns remained over some advertising restrictions.

Rival offers

During the merger process, Tatts received and rejected rival proposals from Pacific, a consortium of financial investors (see Table 2 for the consortium members). Despite three efforts by Pacific to improve its plan, the Tatts' board continued to recommend Tabcorp's proposal, deeming Pacific's proposal inferior.[76]

With an understanding of the merger background, the merging parties, their rationale to merge, and the critical regulatory and rival bidder risks around the merger, I can now proceed with an analysis of Tatts and Tabcorp's stakeholder management during the merger process.

5. ANALYSIS

In this section, I analyse how stakeholder management by Tatts and Tabcorp helped to overcome significant opposition from powerful stakeholders to the merger and ultimately succeed. I apply Savage et al.'s typology[77] to examine how the most potentially disruptive stakeholder relationships were managed during the merger process, followed by a discussion of the findings.

72. Tribunal, 2017
73. Ibid., p. 191
74. ACCC, 2017a
75. Tabcorp, 2017c
76. Tatts, 2016c
77. Savage et al., 1991

5.1 A stakeholder management approach from the beginning

Tatts and Tabcorp's initial plan to managing their stakeholder relationships was explained in their merger proposal,[78] with 5 of the 13 presentation pages devoted to the benefits of the merger to various stakeholders. These were identified as Tatts and Tabcorp's shareholders, the Australian racing industry, business partners, customers, and 'our people' as stakeholders. Except for 'our people', each of these stakeholders had one page devoted to how they could expect to benefit from the merger. Tatts[79] counted staff as its internal stakeholders and its external stakeholders as its investors/shareholders, customers, suppliers/business partners, government/regulatory agencies, industry partners/associations, and the community.

The day the merger agreement was announced, Tatts and Tabcorp launched 'the mother of all charm offensives' (F2) to entice stakeholders, which involved well over 100 meetings with shareholders, the racing industry, and other business partners (T1, F1, L3). All but one of the interviewees (Rac2) were impressed by the effort to overcome various stakeholder opposition. All interviewees acknowledge the critical role this offensive played in getting the merger implemented; none were able to cite precedent in the magnitude of the offensive in an Australian merger. Tabcorp knew its key stakeholders. It had always kept them close, and once the merger was announced, Tabcorp did the rounds to educate them and make it easier for them to understand the transaction (T2). 'The length they went to in anticipating problems and getting broad stakeholder support was massive. They tried to arrange [it such that] each child had a toy, dealing with the self-interests of each stakeholder and removing key obstacles' (E1).

It was also emphasised that Tabcorp's day-to-day relationships with its key stakeholders were embedded in its corporate culture as 'just the way of doing business' (L4). Tabcorp, R1 noted, operated in a highly regulated market and so were well familiar with managing stakeholder relationships. 'It is part of what they do. They know their way around.' C1 describes the scale of the charm effort as 'unprecedented' despite stakeholder management being common practice where regulatory concerns loom large. Rac1 said it was 'an enviable strategy that was effective'. C1 nevertheless believes Tabcorp could have won the support of the intervenors without going to the Tribunal. 'Tabcorp was not flexible enough to pivot.'

Tabcorp was seen to have a more robust corporate governance record than Tatts (S7), which 'treated stakeholders as a cost compared to Tabcorp treating stakeholders as assets – a different philosophical approach between the two companies. Tatts shared nothing with the racing industry. Tabcorp did' (T2).

Announcing its decision to bypass the ACCC and lodge an application with the Tribunal for merger authorisation, Tabcorp[80] highlighted how it had 'actively engaged with stakeholders'. It noted that 'it has become clear that many stakeholders are strongly supportive of the transaction and its anticipated benefits'. Also, its application will be supported by 'substantive evidence from a wide range of industry participants and experts as to the substantial public benefits from the transaction accruing to the racing industry, venue partners, customers, shareholders and the broader community'. The application was endorsed by witness statements from the racing industry in every state/territory, other than Victoria, and

78. Tabcorp, 2016a
79. Tatts, 2017b, pp. 34-35
80. Tabcorp, 2017d, p. 1

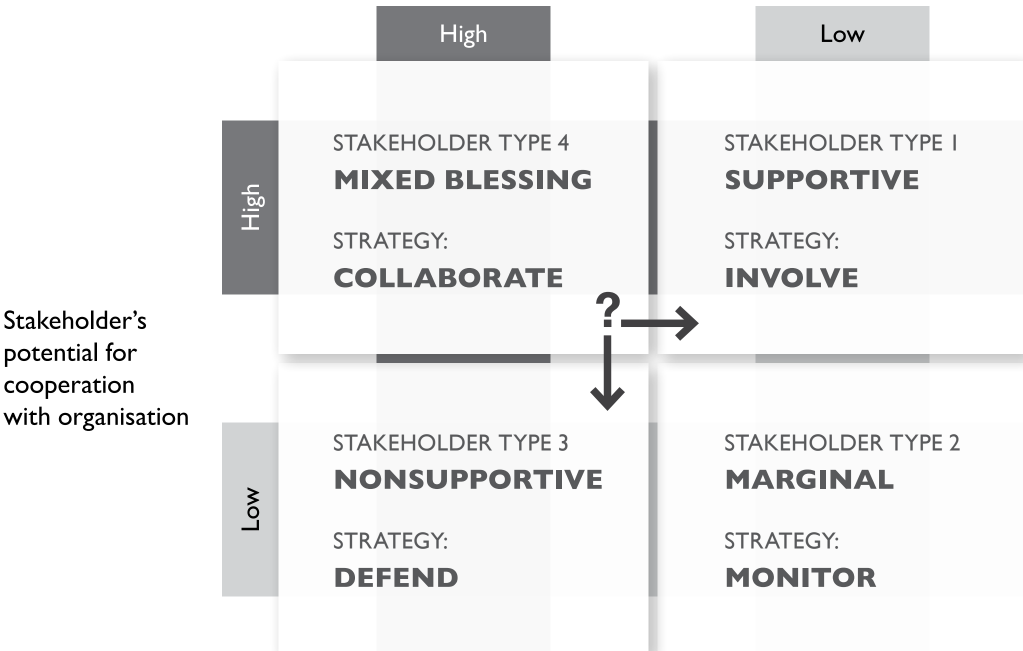
representatives from retail wagering venues, peak retail bodies, and associations representing jockeys and trainers.

Tabcorp[81] argued this stakeholder approach was better suited to the Tribunal process, which tests the balance of public benefits resulting from the proposed transaction against the likely detriments, including reduced competition. In contrast, the ACCC's informal merger clearance test is limited to assessing whether a proposed acquisition is expected to lessen competition substantially; it cannot consider countervailing public benefits.

5.2 Stakeholder management during the merger

This backdrop of stakeholder management by Tatts and Tabcorp during the merger process requires a more detailed analysis with a particular focus on the most potentially disruptive stakeholder relationships. Informed by the case evidence, the discussion draws on Savage et al.'s four generic strategies for managing four different types of stakeholders[82], as illustrated in Figure 1.

FIGURE 1 STAKEHOLDER POTENTIAL TO THREATEN THE MERGER PROCESS



Source: Savage et al. (1991, p. 65)

81. Tabcorp, 2017d
82. Savage et al., 1991

Savage et al.[83] categorise stakeholders according to their potential to threaten or cooperate with an organisation. The four stakeholder types are supportive (Type 1), marginal (Type 2), non-supportive (Type 3) or mixed blessing (Type 4). Each type requires different strategies to manage. Supportive stakeholders (defined as a low potential threat and high potential cooperation) are best managed by involvement. Marginal stakeholders (neither highly threatening nor especially cooperative) are best managed by monitoring. Non-supportive stakeholders (high potential threat, low potential cooperation) are best managed by defensive strategies. Mixed blessing stakeholders (equal potential to threaten or cooperate) are best managed by collaboration. 'Managers should attempt to satisfy the needs of marginal stakeholders minimally and to satisfy maximally the needs of supportive and mixed blessing stakeholders.'[84] This section illustrates the different stakeholder management strategies during the Tatts/Tabcorp merger process using Savage et al.'s typology of organisational stakeholders.[85]

Element A: Shareholders

In managing their shareholder relationships, Tatts and Tabcorp highlighted[86] that the merger would benefit shareholders by creating: 1) a more diversified national portfolio of gambling licences, which would position the group to invest, innovate, and compete in an evolving marketplace; 2) synergies and business improvements; 3) a stronger balance sheet to pursue capital management initiatives; 4) a $500m buyback, and 5) a targeted dividend payout ratio of 90% of net profits after tax. This was ultimately persuasive. Shareholders overwhelmingly supported the merger, with 95.6% of shareholders voting in favour of the scheme, and 98.6% of votes cast in favour.[87] Tabcorp shareholders never voted. Interviews with both companies and Tabcorp shareholders suggest strong support for the scheme from Tabcorp shareholders (F1, L2, T1, S3).

In the Savage et al.'s typology,[88] these shareholders were mostly Type 1 stakeholders – either supportive (non-threatening, cooperative) and involved or marginal (neither threatening nor cooperative) and monitored. As shown in Table 2, by extensively involving their respective shareholders, Tatts and Tabcorp managed to contain potential opposition among shareholders to small activist shareholders. A Tabcorp institutional investor who sold out once the merger was announced (S3) highlighted that, even though Tabcorp shareholders overwhelmingly supported the transaction, his fundamental valuations estimated that Tabcorp had paid 15–20% too much. He also believed the transaction was too difficult to value given the opaque nature of disclosure around the benefits.

A few outlier shareholders can be classified as Type 2 stakeholders as they presented a low threat and required no need for cooperation. Two activist shareholders of Tatts, Sandon Capital and Hunter Green Institutional Broking (holding well under 1% in Tatts collectively) called for shareholders to reject the merger because the financial benefits of the proposed merger were skewed in favour of Tabcorp's shareholders. Sandon Capital[89] calculated that Tatts shareholders would be giving away almost $1.5bn in value. Charlie Green, the founder of Hunter Green Institutional Broking, called for the Tatts' board to walk away from the merger given Tabcorp's FY17 results diminished the value of the merger.[90] S1 said their calls never

83. Ibid
84. Savage et al., 1991, p. 72
85. Ibid., p. 65
86. Tabcorp, 2016b
87. Tatts, 2016b
88. Savage et al., 1991
89. Capital, 2017
90. The Australian, 2017

gathered momentum primarily because Tatts' major shareholders were focused on the short-term risk of a sharp drop in the Tatts share price should the merger fail. He noted only one meeting was held with Tatts' chief executive. 'There was no point in having more meetings.'

The shareholder relationships held by both Tatts and Tabcorp can be characterised as 'managerial governance', where ownership rights are mediated by institutional investors. In turn, these institutional investors leave the strategic and operational control of the firm in the hands of salaried executives who serve as agents for widely dispersed shareholders.[91] However, these shareholders played no small role in influencing management, most notably in pushing Tatts towards a merger with Tabcorp. They lent Tabcorp crucial support to proceed and supported Tatts in rejecting rival approaches from Pacific.

While the analysis only spans the Tatts/Tabcorp merger from announcement to implementation, the situation before the merger is instructive for stakeholder management. In Savage et al.'s terms,[92] Tatts collaborated with its key shareholders who were Type 4 stakeholders, i.e., mixed blessing with potential to both threaten and cooperate with Tatts. Many interviews (L1, S1, S2, S4, S5, T1) reveal that, in the lead up to the merger, Tatts faced shareholder pressure to improve its performance and renew its strategy, including some consideration of demerging its wagering business. They argued this was a significant influence in getting Tatts to eventually agree on terms with Tabcorp. Tatts' 2016 annual general meeting saw 22% of its shares voted against its remuneration report,[93] the most common proxy for a protest vote (S2).

Tatts' two largest shareholders at the time, Perpetual and AustralianSuper, signed confidentiality agreements and were 'brought behind the wall' by Tabcorp before the merger announcement to show Tatts they had shareholder support and to help bring target directors on board (L1, S2, S5). AustralianSuper went public with its support the day of the merger announcement.[94] These large shareholders had been actively pushing the Tatts board for such a merger on the basis that both were losing market share. They cited Tatt's historic slowness to move to digital platforms (S8), its synergies, limited other alternatives, and the difficulties of demerging its wagering business as reasons in favour of the Tabcorp merger (S5). There was no engagement with other shareholders due to the risk of information leaks before the announcement. Involvement with other shareholders started the day the merger was announced with a joint briefing led by the chairpersons of Tatts and Tabcorp, followed by extensive shareholder and roadshows. One Tabcorp shareholder (S6) said it was apparent that the merger would happen; the only question related to the merger ratio. A preference for not being informed beforehand was expressed to avoid binding confidentiality restraints.

Element B: Pacific Consortium

Rival bidder Pacific Consortium is classified as a Type 3 stakeholder (non-supportive). Pacific disrupted the natural flow of the merger with delays, distractions, and by generating shareholder pressure on Tatts to engage Pacific through altogether three indicative and non-binding proposals (L1, S1, S2, S4, S5). Tatts rejected all as inferior on the basis that they could not reasonably be expected to result in a superior proposal when compared to Tabcorp's. Tatts adopted a defensive management approach to this Type 3 non-supportive) stakeholder and its potential to threaten the merger.[95] C2 highlights that the constraints in Australia, where boards, management,

91. Carney and Dostaler, 2006
92. Savage et al., 1991
93. Tatts, 2016b
94. Tabcorp, 2016b
95. Savage et al., 1991

and shareholders unite, prevented any alternative action. 'Pacific could get nowhere, only a handful of shareholders reached out to Pacific.' Pacific's problem was being unable to find a buyer for Tatts' wagering business (S6, L1). Tabcorp was seen as 'the natural buyer' of the whole group (S6, S8), and there were also potential capital gains tax leakages for shareholders (S8).

For R1, Pacific saw no point engaging shareholders without an agreement with Tatts, which it could not get to participate. 'It never got to that stage. Only a few Tatts shareholders reached out.' For its part, Tabcorp was reminding Tatts' shareholders that Tatts did not have a free option to grant Pacific due diligence given Tabcorp's exclusivity agreement with Tatts (F1), and it also put the merger timeline at risk. 'It was in the Tatts' shareholders best interests that Tatts not engage.'

Element C: The racing industry

Described as a 'mutually dependent eco-system' (L3), Tabcorp's relationship with the racing industry had to be carefully managed during the merger process, starting with significant industry engagement immediately after the merger was announced (T1, L3, E3). According to Savage et al.,[96] this is an appropriate strategy for managing Type 4 (mixed blessing) stakeholders with the potential to disrupt and threaten the merger. T2 noted that not one licencing agreement with any racing body was the same, which created different relationships. 'It was a case by case relationship and approach.' The critical exception was the 'absolutely crucial' (T1) joint venture with Racing Victoria, described as the Manchester United of Australian racing (S1). Racing Victoria was a non-supportive stakeholder that had to be defended against.[97]

The racing industry is heavily reliant on Tabcorp as 'a core part of the structure of Australian racing and the largest financial contributor to the racing industry'.[98] Through its industry arrangements, licences, and taxes, it returned $813m to the racing industry in FY17, including $325m to the Victorian racing industry and $312m to the NSW racing industry. Tatts paid $190m to the racing industry in FY17 via product and race information fees.[99]

The merging parties also needed support from the racing industry for their anticipated complicated regulatory process, which was vulnerable to opposition from the powerful racing industry lobby (L2). There were statements to the Tribunal from 23 participants in the racing industry, which the Tribunal described as 'overwhelmingly supportive of the proposed merger or did not actively oppose the proposed merger'.[100] The evidence outlined how the extra funding would enable the industry to increase prize money, retain field sizes, improve racing and patron facilities, and improve animal welfare programs, all of which would benefit the industry as a whole.[101] It was noted, however, that some racing bodies 'relied on presentations given by Tabcorp propounding the benefits of the proposed acquisition, and this may well be the basis of their support'.[102]

Tatts and Tabcorp identified the benefits of the merger to the racing industry[103] as an investment from a more substantial wagering operator to enhance customer experiences. Also identified were: at least $50m in additional annual funding for the racing industry; a pathway to national pooling for pari-mutuel wagering; and more effective competition for the supply of wagering products and services. The Tribunal found the greater scale

96. Ibid
97. Ibid.
98. Tabcorp, 2017b, p. 9
99. Tatts, 2017b
100. Tribunal, 2017, p. 37
101. Tatts, 2017a
102. Tribunal, 2017, p. 39
103. Tabcorp, 2016b; Tribunal, 2017

and lower costs would enable the merged group to compete more effectively than as individual companies. 'As such, there will likely be greater competition than without the merger, particularly in online wagering, something that would add to the public benefits which would accrue to the racing industry and consumers.'[104]

As highlighted in Element C of Table 2, all state racing peak bodies are classified as Type 4 stakeholders (mixed blessing), except for Victoria, and all, except Victoria, eventually supported the merger.[105] In the cases of Racing Queensland and Racing and Wagering Western Australia (RWWA), acceptance came after they negotiated agreements with Tabcorp designed to protect their interests. Widespread racing industry support for the merger was largely based on higher funding, increased competition and revenue in the wagering market, and the benefits of a national tote.[106]

The Victorian racing industry, a Type 3 (non-supportive) stakeholder, argued the merger would lead to a vertically integrated entity with increased market power when bidding for racing media rights. It would also reduce competition for the exclusive Victorian wagering licence, thus lowering returns to the racing industry.[107] While Racing Victoria was expected to oppose the proposed merger, its level of aggression and vigorous pursuit surprised the merging parties (L1). Historically, relations between Tabcorp and Racing Victoria, which wanted to leverage its position as the premier racing state, had been frosty (E2, L1, S5, C1) – for example, Tabcorp's blackout of Victorian racing vision in 2015.[108] Racing Victoria sensed that their 'joint venture is not joint in the traditional sense where each party contributes to strategy but a forced marriage under the government's licensing framework. It is a funding and distribution agreement whereby Racing Victoria is reliant on Tabcorp for money. Tabcorp's expansion disrupted the relationship by introducing conflicts of interest around competing businesses' (Rac2).

Racing Victoria had a long history of opposing Tabcorp, including opposing Tabcorp's proposed merger with UNiTAB in 2006 (L1). T2 noted that both Tabcorp and Racing Victoria like to dominate and control. 'The relationship was always tense but, in the end, it was commercial despite the tensions.' There was also a sense that Racing Victoria did not oppose the merger on principle, but rather to retain power (T2) and extract more leverage around its upcoming 2024 licence renewal, which 'quickly became transparent' (L3). 'Racing Victoria faced the biggest risk due to the short-term nature of its licence coming up for renewal. It tried to engage with Tabcorp but [was] dismissed. It could never match their legal challenge at the Tribunal' (Rac2).

Racing Victoria has also historically clashed with Australia's second largest racing operator Racing NSW (T2, C1, Rac1, Rac2), which has long been perceived as 'tied to the hips' of Tabcorp (A1). 'Racing Victoria was not the highest order of business for Tabcorp, which earned more from NSW [and] wants to challenge the incumbency of Racing Victoria as Australia's premium racing event provider' (Rac2). Racing NSW was supportive of the merger as it would increase wagering competition, which, in turn, would benefit the NSW racing industry.[109]

Racing Queensland's initial concerns about the merger were around a reduced focus on Queensland with a shift from being the most prominent racing state under Tatts' UBET to being one that was less commercially significant to the combined entity. Discussions with Tabcorp led to

104. Tribunal, 2017
105. Ibid
106. Ibid
107. Thompson, 2017
108. Herald, 2015
109. V'Landys, 2017

a confidential commercial arrangement that resolved Racing Queensland's concerns. Racing Queensland's eventual support for the merger was premised on better returns given Tabcorp's stronger business when compared to Tatts, technology investments, and success in managing its yield on its fixed-odds book and TAB brand in the retail channel.[110] Racing Queensland also saw the funding benefits, plus a potential pathway to national totalisator pooling, concluding the merger would be 'meaningfully beneficial overall to Racing Queensland'.[111] Victoria's joint venture partnership with Tabcorp made it easier to play catch up with a new offer to Racing Queensland (L3).

RWWA, a public body corporate with the only licence to provide pari-mutuel services in Western Australia, had initial concerns about whether the merger would reduce the commercial attractiveness of Tabcorp continuing to pool with RWWA, given that the current Tabcorp/RWWA pooling agreement expires in 2024.[112] Also, RWWA was reliant on the intellectual property rights in the TAB brand. And, as with the other states, removing one potential bidder (Tatts) could reduce competition for the WA TAB wagering licence. Discussions with Tabcorp led to a confidential agreement that provided RWWA 'with a sufficient degree of certainty' over these concerns. Subsequently, RWWA concluded that the merger was 'broadly positive for the Australian wagering and racing industry and in particular for the racing industry and punters in current Tatts states and territories such as Queensland and South Australia'.[113] Compared to the agreement with Racing Queensland, which only involved money and investment, RWWA won assurances around a single pool when it privatised (T2). For its part, Tabcorp provided no funding to RWWA to secure any advantage over future privatisation (T2).

Element D: Regulators

The merger was conditional on around 30 regulatory approvals (L2, L4), some more disruptive than others. All these regulators had to be managed but the focus, as highlighted in Table 2, was on the ACCC and the Tribunal. Both are Type 4 (mixed blessing) stakeholders with the potential to either threaten or cooperate with the merger. The Tribunal wielded absolute power to determine if the merger was in the net public interest and thus could proceed. Typically, the ACCC is the final arbiter of Australian mergers. If it determines that anti-competitive aspects of a merger proposal cannot be satisfactorily resolved through undertakings or restructuring the merger, the project collapses. There are legal avenues for the parties to appeal an ACCC final decision, but these are not commonly pursued.

The ACCC was surprised by the parties going to the Tribunal but, with hindsight, the ACCC saw Tatts and Tabcorp had started making contingencies for such a move well before the ACCC's SOI, including lining up evidence and witnesses (R1). 'They did a lot of work and lobbying.' The merging parties 'expected the ACCC to have negative views on the merger proposal and were far more confident of authorisation based on stronger public benefit grounds' (L1). L3 added that it is 'all very well having a sound competition process and legal arguments lined up', but strong stakeholder support upfront was critical. 'It was striking how quickly key stakeholders fell behind the merger with the exception of Victoria.' There were also costs associated with going to the Tribunal, not least providing a platform that intervenors would not otherwise have had (C1).

110. Forbes, 2017
111. Ibid., p. 10
112. Burt, 2017
113. Ibid., p. 7

Adopting a collaborative approach to these Type 4 (mixed blessing) stakeholders,[114] Tatts and Tabcorp poured enormous resources and effort into the Tribunal process. The proceedings were probably Australia's most substantial merger clearance authorisation process, with over 1,900 documents comprising over 44,000 pages put before the Tribunal.[115] In total, around 82 statements from 69 lay witnesses, an additional 15 third party submissions, and 12 expert reports from 7 different economists were filed in the proceedings.[116] The Tribunal lists 84 witnesses and interested third parties.[117]

The merging parties acutely understood and meticulously went about preparing the merger case to satisfy the concerns of the Tribunal were they to short-circuit the ACCC – this is a point on which all interviewees agreed. These preparations involved not least rallying expert opinions and stakeholder support immediately after the merger was announced from well over 100 meetings with shareholders, the racing industry, and other business partners (T1, F1, L3). The ACCC's concern around Odyssey was satisfied, but the five different issues it identified that 'may raise concern' were not. Once the merging parties assessed their prospects for regulatory approval were more likely to come from the Tribunal, they abruptly ended their conversations with the ACCC. The ACCC was left as an opposer of the merger whose remaining concerns did not prevail with the Tribunal.

In addition to offering to divest from Odyssey, Tabcorp on its volition submitted conditions to the Tribunal. 'No doubt, mindful of the Tribunal's earlier suggestion that it would prefer to rely on conditions as expressed by participants',[118] these conditions related to: the supply of Sky Racing to the providers of retail channel wagering; the supply of pooling services to the RWWA; and any future rival pari-mutuel wagering operator in Victoria. Tabcorp also committed to dispute resolution mechanisms and compliance reporting.

Element E: Competitors

Corporate bookmakers and Racing.com are Type 4 (non-supportive) and Type 3 (mixed blessing) stakeholders, respectively. Tatts and Tabcorp successfully defended against them. There was a different outcome for CrownBet with whom Tabcorp collaborated to negotiate a commercial agreement. CrownBet,[119] which led the corporate bookmaker opposition in the Tribunal process, was concerned about the merged entity's bargaining power to acquire racing media rights, especially digital media rights. There was also the issue of the reduced bargaining power left to the racing media suppliers. It was felt the merger would make those suppliers more likely to sell their media rights to the merged entity than the bookmakers. Access to racing media content is a crucial component of providing wagering services and is where bookmakers would face direct competition with the merged entity. Hence, any threat to media access was an immediate threat to business operations. As shown in Table 2, Racing.com dropped its Tribunal intervention. CrownBet persisted longer, threatening to appeal the Tribunal's decision before reaching an agreement with Tabcorp over its Sky Racing coverage, which was 'very significant' for its online operations and profitability (C1). CrownBet remained concerned, however, about advertising restrictions (C1).

Element F: Advisors

Financial and legal advisors were contracted and paid by Tatts and Tabcorp to provide advice and act in the interests of the respective boards. These are paragon Type 1 (supportive) stakeholders.

114. Savage et al., 1991
115. Gilbert+Tobin, 2017
116. Ibid
117. Tribunal, 2017
118. Ibid., p. 44
119. Tyshing, 2017

They were low threat and highly cooperative throughout the merger process. All interviewees agreed these advisors were a core component of stakeholder management during the process. Sitting in the decision-making 'engine room' of both Tatts and Tabcorp, they significantly influenced the strategies and tactics used throughout the merger process and extensively engaged other stakeholders, most notably shareholders, the racing industry, and the regulators.

The financial advisors fronted shareholders and the racing industry in explaining/defending the transaction throughout the process (T1, F2). They were heavily involved in strategising and negotiating commercial terms with CrownBet. They were also involved with the Pacific bid, helping to assess the proposal and devise Tatts' responses. Towards the end of the merger process, the financial advisors were also responsible for corralling shareholder votes.

In addition to providing legal advice around the merger terms, the legal advisors further devised and led the legal strategies to win support from the Tribunal and, initially, the ACCC. Specialist competition and commercial litigation lawyers not only faced the Tribunal but provided advice, strategy, coordinated statements, and witnesses in building the case.

In developing the framework of stakeholder relationships during the Tatts/Tabcorp merger process shown in Table 2, this analysis reveals the approaches taken by Tatts and Tabcorp to stakeholder management. Their management of six stakeholder relationships during the merger process is explained by applying the documentary and interview evidence to Savage et al.'s typology[120] for identifying a stakeholder's potential to threaten an organisation.

6. DISCUSSIONS

The evidence presented in Section 5 reflects the complex social, economic, and political consequences arising from the Tatts/Tabcorp merger process and the disruptions to numerous stakeholder relationships. By drawing out the implicit dynamics with these stakeholder relationships, a hermeneutic approach helps us to understand this complexity. The case evidence suggests different stakeholders played diverse, changing, and often conflicting roles throughout a merger process that both affected the outcome of the merger and was affected by the result. The Tatts/Tabcorp merger process was a hermeneutic web where the parts and the whole could not exist without each other. Like the threads of a network, the stakeholder relationships were enmeshed, mutually dependent, and dialectally imbalanced.

A merger induces varied responses to and from stakeholders, each having different interests and levels of power in the organisation. As Lamberg et al. state,[121] such idiosyncrasies mean 'understanding the nature of an organisation's environment, constituted by a set of stakeholders with acknowledged rights, obligations, interests and power, becomes a critical precondition for successful managerial decision-making'. Furthermore, stakeholder relationships evolve and constitute different episodes to the merger process that can be understood as both ethical and strategic, whose different interests become justified concerning the merger process.[122] These findings were borne out in the Tatts/Tabcorp merger, where managing potentially deal breaking stakeholder relationships was crucial to the merger's approval.

120. Savage et al., 1991
121. Lamberg et al., 2008, p. 5
122. Kujala, Heikkinen and Lehtimäki, 2012

6.1 Balancing and disempowering stakeholder interests

The stakeholder model contends that stakeholder interests should be balanced. Balance, in this context, is understood as managing a process and consideration in decision making rather than distributing financial outputs.[123] Reynolds, Schultz and Hekman[124] explain that balancing stakeholder interests is a 'process of assessing, weighing and addressing the competing claims of those who have a stake in the actions of the organization'. This balancing process, they add, ultimately 'includes behaviours that bring some kind of resolution to conflicting stakeholder needs or requests'. It is a critical stakeholder principle 'as it represents the principal mechanism by which managers "pay attention to", elicit, and maintain the support of stakeholders with disparate needs and wants'. Stakeholder theory does not give primacy to one stakeholder over another, 'though there will surely be times when one group will benefit at the expense of others. In general, however, management must keep the relationships among stakeholders in balance'.[125]

It cannot be argued that stakeholder interests can always be made to align.[126] Non-supportive stakeholders are defended by reducing the dependencies that form the basis of their interest.[127] Managing this is often done by allowing some key stakeholder relationships to override and weaken others, and even powerful stakeholders are not immune to being disempowered.

During the merger process, Tatts and Tabcorp adopted both approaches to stakeholder management. Some stakeholder interests were balanced; others were disempowered. The strategies used for each relationship are detailed next.

Shareholders: The merger was conditional on Tatts obtaining the support of 75% of the voting shares. The merger was approved by a massive majority, demonstrating that stakeholder management to balance shareholder interests was effective. Before the merger was agreed to, Tatts was under shareholder pressure to renew its performance and strategy. Such pressure played no small role in Tatts accepting merger terms with Tabcorp. Tabcorp faced weaker shareholder opposition, which was largely around its claimed synergy benefit claims. Tabcorp, too, was ultimately successful in managing such concerns, and ended up securing the support of its shareholders for the merger even though no vote was required.

Pacific Consortium: Tatts rendered Pacific's hostile approaches ineffective from the start. The consortium comprised what was considered to be credible, serious, and powerful parties. However, Tatts was still able to withstand activist shareholder pressure to engage with Pacific primarily by regaining shareholder confidence after negotiating a merger with Tabcorp. Despite a monumental effort, Pacific was never able to attract support from Tatts' shareholders. Therefore, it had no way to pressure Tatts to engage with its proposal (R1). The only support for the Pacific proposal came from a few minority activists (Sandon Capital and Charlie Green), which were easy for Tatts to fend off, given their small size.

The racing industry: While the merger was not conditional on racing industry support, the merged groups and the racing industry share a 'mutually dependent eco-system' that meant racing industry support was essential (E3). Such assistance was also critical for the parties to persuade shareholders and the Tribunal on the merits of the merger and weaken intervenor opposition. Management of

123. Parmar et al., 2010
124. Reynolds, Schultz and Hekman, 2006, p. 286
125. Evan and Freeman, 1988, p. 314
126. Orts and Strudler, 2002
127. Savage et al., 1991

relationships with the racing industry – not least funding – made the benefits clear to the racing industry (L3). Such effective management was born out of the historical and mutually dependent relationship between Tabcorp and the racing industry. Where those historic relationships were weaker – notably between Tabcorp and RWWA and Racing Queensland – the parties were able to negotiate their conflicting interests (L3, T1). The outlier was Racing Victoria, where the power struggle between Victorian racing interests and Tabcorp/Tatts was not resolved. Instead, Victoria was forced to accept the Tribunal's findings that Victoria's conditions were unreasonable.

Overcoming concerns from RWWA and Racing Queensland through commercial 'peace' deals with Tabcorp and securing the support of the NSW racing industry allowed the parties to 'bypass' Victorian racing interests. This threatened the dominance which Racing Victoria wanted to leverage (L3, F2, T2). Left isolated as the racing industry's only remaining objector, Racing Victoria was surprised at the ease with which RWWA reached an agreement with Tabcorp (Rac2). 'They did well in rejecting and isolating Racing Victoria' (E1), but 'this left resentment within Racing Victoria which leaves trust difficult to restore' (Rac2).

Regulators: The merger was also conditional on regulatory approvals. Management's regulatory focus, as seen in the evidence, was on the ACCC and the Tribunal. While the ACCC forced the sale of Odyssey, it was outmanoeuvred and disempowered in the legal process when Tabcorp appealed to the Tribunal directly and, thus, became subjected to a different test. At the Tribunal, Tabcorp overwhelmed the intervenors by pouring massive resources into the legal case and preparing from the time the merger was announced in anticipation of circumventing the ACCC (L1, L3, E3, Reg1, Tab1). This included lining up expert witnesses and submitting its motions to satisfy the Tribunal's potential concerns.

Competitors: CrownBet made extensive use of the Tribunal process as an intervenor, a mobiliser of other bookmaker opposition, and an appealer, before eventually navigating the process to reach favourable commercial terms with Tabcorp. CrownBet was the only competitor whose concerns were balanced. Tabcorp ignored the other competitors' concerns and disempowered Racing.com in particular.

Advisors: While there are conflicts around fees, the nature of the advisory relationship is one of trust and, hence, balance. Advisors were paid to act in the interests of the respective boards. Beyond robust discussions and strategising, there is no evidence to suggest such relationships were unbalanced or materially conflicted during the merger process. Interests between advisors and the boards were mainly aligned, and so required little balancing.

6.2 Inter-group stakeholder relationships

Stakeholder theory is about managing potential conflicts stemming from diverging interests.[128] Firms do not respond to each stakeholder separately but rather to the simultaneous demands of multiple stakeholders.[129] Cording et al.[130] refer to the concept of generalised exchange as an essential assumption in stakeholder theory, whereby a firm's relationship with one stakeholder influences its relationships with other stakeholders. During the Tatts/Tabcorp merger process, balancing stakeholder disruptions also required managing conflicting inter-group stakeholder interests. I consider a few of these interests in the next sections.

128. Frooman, 1999
129. Rowley, 1997
130. Cording et al., 2013

Shareholders and racing industry: During the merger process, the conflicting interests of shareholders and the racing industry had to be managed. 'Tabcorp pitched the synergy number at a sufficient level to appease shareholders and yet not alienate the racing industry and regulators. It was a stakeholder balancing act' (S4). E1 and E3 likened the balancing act to one of trying to ensure that every child has a toy. S4 and S8 highlighted tensions around pitching sufficiently attractive synergy numbers to appease shareholders without alienating the racing industry. 'Tabcorp knew it needed to share the spoils; shareholders accepted this to get the merger done' (E3).

Shareholders and Pacific: Management of Tatts shareholders helped ensure that the only support for Pacific's rival proposal came from a few minority activist shareholders. Despite their best efforts, Pacific was never able to attract much support from Tatts' shareholders and, thus, no pressure built on Tatts to engage with Pacific (R1).

Racing industry and regulators: By extensively nurturing and negotiating commercial agreements in the cases of Racing Queensland and RWWA, the merging parties managed much of the racing industry support for the merger that was provided as crucial evidence to both the ACCC and Tribunal. Furthermore, opposition from Racing Victoria was a key instigator in Tabcorp using the Tribunal process (E2, Rac2).

6.3 Intra-group stakeholder relationships

Stakeholders are not monolithic, homogeneous groups; instead, they differ widely in terms of interests, involvement, sophistication, and their capacity to influence.[131] By exploring large stakeholder groups, researchers ignore many differences within groups.[132] Lamberg et al.[133] argue that M&A research offers opportunities to re-examine existing frameworks and to develop more dynamic and realistic understandings of what happens within and between stakeholder 'networks' to influence organisational actions and outcomes. Evidence from the Tatts/Tabcorp merger process reveals that their stakeholders are not homogenous but a complex mixture of differing and conflicting interests in the merger. These intra-group stakeholder interests had to be managed.

Shareholders: Managing the divergent interests among shareholders was important to securing shareholder support for the merger. Valuations and investment motivations differed between the activists, those invested in both Tatts and Tabcorp, the long-term shareholders, and the retail investors. At the time, Tabcorp itself was a substantial shareholder in Tatts with a 9.99% stake, so Tabcorp was also protecting its interests, and these interests were not necessarily the same as the other Tatts shareholders. A bidding war with Pacific, for example, would have benefitted almost everyone other than Tabcorp. Against the interests of institutional and retail investors, as evidenced by their votes for the merger, the small activist Tatts shareholders provided the sole shareholder opposition.

Racing industry: Intra-group stakeholder dynamics in the racing industry were also managed. Balancing the initial concerns from RWWA and Queensland racing interests through negotiated agreements was crucial to disempowering the most potent industry player Racing Victoria. Racing Victoria was surprised at the ease with which RWWA, in particular, reached an agreement with Tabcorp (Rac2). Securing the support of the NSW racing industry, perceived as historically 'tied to the hips' of Tabcorp (A1), along with its well-known clashes with Racing Victoria (T2, C1, Rac2), further allowed the parties to bypass Victorian racing interests and threaten the dominance it wanted to leverage (L3, F2).

131. Winn, 2001
132. Harrison and Freeman, 1999
133. Lamberg et al., 2008

Regulators: Tabcorp weakened the ACCC by circumventing its merger review process with a direct appeal to the Tribunal and playing off their different roles. The Tribunal applies a net public benefit assessment, whereas the ACCC assesses the risk of substantially lessening competition. As such, these regulators arrived at different conclusions. The ACCC intervened to challenge the Tribunal's decision, but never agreed with the final ruling.

Competitors: Tabcorp negotiated a deal with CrownBet that gave it significant advantages over other rival corporate bookmakers, even though they supported CrownBet's Tribunal application. By reaching an agreement with CrownBet, Tabcorp also weakened Racing.com's intervention at the Tribunal. Tabcorp was well aware that CrownBet was the most aggressive of the corporate bookmakers because of its unprofitability and small scale. Hence, CrownBet was under pressure to find a game changer. It needed scale and acquiring Tabcorp's vision rights gave it just that (C3).

What emerges from the evidence is that managing stakeholders involves both balancing and disempowering vital stakeholder interests during the merger process. Tatts and Tabcorp balanced most of their key stakeholder relationships, including conflicting inter- and intra-group stakeholder interests and, in doing so, they were able to disempower the most potentially disruptive stakeholder relationships – most notably, Pacific, the ACCC, and Racing Victoria.

7. CONCLUSIONS

In considering how Tatts and Tabcorp's stakeholder management was affected by, and how it affected, its merger process, I have viewed Tatts and Tabcorp's stakeholder management in hermeneutic terms as a dynamic process of the whole (the merger process) and its parts (the stakeholder relationships) coming together through stakeholder management. The case evidence suggests that managing these stakeholder relationships during their merger process was far from static and smooth, but a process was ebbing and flowing through phases of disruption and interruption by multiple stakeholder relationships. This involved both accommodating and disempowering stakeholder interests. Balancing some stakeholder interests allowed the parties to weaken and ignore the concerns of other stakeholders. With substantial risks around the regulators, shareholders, the racing industry, and competitors, the merger could have fallen over. However, Tatts and Tabcorp's management of the potentially disruptive stakeholder relationships was crucial to see it go through.

This paper paves the way for future research to investigate the multidirectional and dynamic, intra- and inter-group relationships between stakeholders that are characterised by a complex web of relationships between a merger process and its stakeholder parts. It is apparent that, while the merger affected stakeholder relationships, it was in no small part influenced by those very same relationships. The paper facilitates historical analysis, forward assessment, future planning and proactive responding, both for academics in devising theories and explanations and for practitioners in considering, designing, and implementing M&A strategies.

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APPENDIX 1 DOCUMENTARY DATA

SOURCE	TITLE
ACCC	Statement of Issues: Tabcorp Holdings and Tatts Group – proposed merger
ACCC	ACCC won't seek review of Tabcorp-Tatts determination
Burt (RWWA CEO)	Statement to the Australian Competition Tribunal
Sandon Capital	Tatts Group: Vote AGAINST the Scheme Resolution
Forbes (Racing Queensland CEO)	Statement to the Australian Competition Tribunal
Tatts/Tabcorp	Merger Implementation Deed
Tatts/Tabcorp	Recommended combination of Tabcorp Holdings and Tatts Group Limited
Tatts/Tabcorp	Tabcorp and Tatts to combine to create a world-class diversified gambling entertainment group
Tabcorp	Application to the Australian Competition Tribunal for Merger Authorisation
Tabcorp	Tabcorp Annual Report 2017
Tabcorp	Tabcorp enters into agreements with CrownBet
Tabcorp	Tabcorp to seek authorisation from the Australian Competition Tribunal
Tatts	Results of 2016 Annual General Meeting
Tatts	Pacific Consortium Revised Proposal not Superior
Tatts	Tatts' Outline of Opening Submissions
Tatts	Tatts Group Limited Annual Report 2017
Tatts	Tatts Group Limited Scheme Booklet
Tribunal	Decision on Tabcorp merger
Tyshing (CrownBet COO)	Statement to the Australian Competition Tribunal
V'Landys (Racing NSW CEO)	Statement to the Australian Competition Tribunal