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**Research Paper**

# The Impact Of M&A Performance And The Importance Of Integration

***ABSTRACT:****The most firms engaging in merger and acquisition (M&A) activity do not achieve the sought-after performance objectives, be it soon after or in the years following the deal. As major reasons for failure, researchers report poor post-merger integration and the difficulties of merging the different cultures. This leads to the question of why the failure rate is so high, despite the large base of research and management experience in M&A implementation gained over the last decades. This work indicates that a wide research community has been able to identify human aspects, as the major reason for conflicts during M&As and as potential factors for negative performance. The mixed research findings suggest that the topic is important.*
***KEYWORDS:*** *Merger and acquisitions,* M&A, performance, post-merger integration, integration management, knowledge management.

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## I. INTRODUCTION

Mergers and acquisitions (M&As) are increasingly being used by companies to achieve corporate growth and maintain their position in the market place. The volume of all M&As worldwide increased from USD 807 billion in 1995 to the highest peak of USD 4,191 billion in 2007, with a significant decrease in 2001 to USD 1,530 billion. Although the economic crisis slowed down the M&A activities again between 2007 and 2010 (USD 2,117 billion), the worldwide volume remains at a very high level [1]. In 2011, cross-border transactions comprised 35.3 per cent of the overall M&A activity worldwide [2]. Many firms, M&As are still seen as a fast and efficient way to expand into new markets, incorporate new technologies and create new knowledge. This trend continues, although study after study has shown that two third of all M&As deliver surprisingly low success rates and fail to create the intended value [3].

The post-merger integration phase of a transaction is where value is actually created or lost. A lack of care in this area can have a large impact on the outcome of M&As. Researchers and practitioners know from past experience that the best process or plan may not work if managers do not implement them correctly or if they do not allocate enough time and resources to the M&A activity [4]. Nevertheless, executives seem to still underestimate the fact that M&A is a complex area that involves multiple dimensions and that needs to be given careful attention, throughout the whole process from the pre-merger phase to the completed integration of two companies.

With the fast increasing popularity of cross-border acquisitions, soft integration factors like culture and employees have become more and more important. A considerable amount of existing research suggests that neglecting or mismanaging the people issues during M&As can have hard consequences for companies, and that human related aspects like culture and knowledge play an important role in the creation of synergies in M&As [5]. Based on this evidence and the continuing poor results of over two decades of research, it can be concluded that considering the human elements and assessing the employee related part of a target company before, and in particular after, a deal is still not given the same priority as to financial and legal issues [6].

## II. REVIEW OF LITERATURE

### Defining mergers and acquisition

According to Gomes et al. (2011), a merger can be described as taking place "when two firms agree to go forward as a single new company rather than remain separately owned and operated". An acquisition would occur when one company takes over another company by purchasing that firm's assets or stock. From a legal point of view, the acquired company ceases to exist and the buyer's shares continue to be traded [8]. However, in most cases, it is difficult to distinguish whether a transaction is a merger or an acquisition.

According to Lasserre (2017) [9], only about 3 per cent of cross-border M&As are mergers of equals, which means that under the merger, two firms of about the same size are combined into one and a new firm is established, which comprises the activities of the merged companies. In this case, shareholders of both companies cede their securities and receive shares issued by the new firm.

**Types of acquisitions**

Gaughan (2010) describes three types of merger or acquisition deals: a horizontal deal involves merging with or acquiring a competing firm in the same industry (for example Ciba-Geigy/Sandoz), a vertical deal refers to merging with or acquiring a company with whom the firm has a supplier or customer relationship (for example Sony/Columbia Pictures), and a conglomerate deal involves merging with or acquiring a company that is not a competitor, buyer or seller and that is product-unrelated. As stated above, cross-border mergers and acquisitions represent over one third of all M&As, of approximately one fifth of them are conglomerate transactions [10]. According to Risberg (2003), the categorization into horizontal, vertical and conglomerate acquisition types is based on the American Federal Trade Commission (FTC) scheme and has been a central starting point for many strategy scholars [11].

**Motives for a merger or acquisition**

This efficiency-driven approach derives from a market or industry-based perspective that focuses on the planning and execution of synergies [12]. Growth can involve acquiring a new customer base, but can also be about obtaining access to better services, brands, innovation or employee's capabilities, for example by creating competitive advantage through existing or new technologies and knowledge [13].

The ability to integrate, build and restructure internal and external competencies in order to achieve competitive advantage is the focus of a resource-based view of the firm [14]. For example, in some industries such as banking or insurance, companies may move into promising new markets to maximize synergies. In other industries such as pharmaceuticals or software technology, companies may work with smaller firms that have developed or are developing new products and technologies that they can manufacture or distribute more efficiently, while they can focus on their internal growth, leadership and development.

In their empirical literature review on mergers and acquisitions performance, Haleblian et al. (2009) analyze the relationship between acquisition behavior and performance. They investigate, for example, acquisition experience and managerial self-interest as motives for M&As. In their view, acquisition experience can be a strong acquisition motivator, since the level of experience and the way acquisition experience is rewarded, can encourage the repetition of an acquisition [3].

**Integration management**

According to Larsson (2005), the different approaches to organizational integration that follows the legal combination of two companies is an important reason for the great variety in the performance of M&As: In some cases, holding to key employees is one of the key success factors. In another, the employees of the target company might be less important to retain and the emphasis should be put on integrating the systems, processes or services [15]. In still another case, if a company may acquire another company in the same industry, the key challenges include which operations to close, which employees to lay off etc. In all cases, integration is about delivering on the promise; it is the process that aims to exploit the potential synergy and added value identified in the pre- merger phase [7].

## III. METHODOLOGY

Haspeslagh& Jemison (1991) [17] describe the entire M&A process from the first idea about conducting an acquisition throughout the post-merger integration stage and present it as a model, which focuses on the pre-acquisition decision-making and the post-acquisition integration activities (Table. 1).

**Table. 1:** Acquisition process and phases [17]

| Pre-acquisition phase | Post-acquisition phase |
|---|---|
| Idea → Acquisition justification | Post-acquisition integration → Acquisition results |

The process starts with the acquisition idea. In the following step, the acquisition needs to be justified. These two steps are part of the pre-acquisition phase. Strategic, legal and financial analyses are a vital element of this step and aim to demonstrate the rationale for the deal, i.e. how to create value for the acquirer. A systematic analysis of the acquisition target should give access to sufficient knowledge of the target and its suitability for, or adaptability to the planned strategy The activity applied in this respect is generally known as due diligence [17].

Integration is the process in this process is crucial for the outcome of the acquisition and that "key differences between acquisition success and failure lie in understanding and better managing the processes by which acquisitions decisions are made and by which they are integrated" [3].

They also suggest that unless the merger is motivated by purely financial goals, for example to lower the cost of capital, post-acquisition integration plays a vital role in determining the outcome of M&As. Other researchers agree that problems in the post-acquisition integration can be detrimental to the success of an acquisition [18].

## IV. RESULT AND DISCUSSION

The growing importance of the need for M&As, and with the base of research and experience expanding, it may be logical to also assume that success is more likely to occur than failure. However, the opposite is the case. According to Lasserre (2017), up to 70 per cent of M&A transactions fail to create shareholder value, increase profitability, or achieve the planned strategic or financial goals. Over the last three decades, several scholars have been in search of the reasons for why so many acquisitions fail [18, 19]. M&A failures can be attributed to a variety of causes. Among the major reasons for failure, still encounter inappropriate strategic rationale for the deal, a lack of pre-merger evaluation, and poor post-merger integration management [17, 3]. Along with the growth in international M&A activities, there is an increase in the number of research areas concerned with the M&A phenomena.

The strategic management perspective has traditionally been the most used perspective to analysed post- merger integration activities. M&A researchers of this perspective have focused on organizational performance and on the factors and strategies that influence it [20]. As part of the strategic management view, but with a process perspective, the organizational theory seeks to consider mergers and acquisitions as processes by which previously independent companies are combined into one. Lasserre (2017) offers a well-summarized overview of problems that can be identified before and after the acquisition, by looking not only at the strategic but also at the organizational fit (Table 2). Both the strategic and the organizational fit are seen as important determinants of the outcome of any merger and acquisition.

**Table. 2**: Symptoms of merger and acquisition failures [9].

| | **Problems for all M&As** | **Particular problems for cross- border M&As** |
|---|---|---|
| Pre-acquisition: Overpayment for targets | Managers overestimate their ability to create value Inadequate pre-acquisition screening.<br>Poor strategic fit. | Lack of familiarity with foreign cultures, institutions, and business systems. |
| Post-acquisition: Failure in integration | Poor organizational fit.<br>Failure to address multiple stakeholder groups' concern. | Clashes of organizational cultures compounded by clashes of national cultures. |

The primary determinants of the merger process and outcome rarely mention leadership as a pre-condition for successful M&As. Cartwright & Schoenberg (2006) come to the finding that companies have still not learned from the past experiences and argue around two additional hypotheses, the third one being the assumption that a considerable amount of executives are undertaking acquisitions driven by non-value maximizing motives (26 per cent) [21].

## V. CONCLUSION

The results show that there is no simple and standard rule for this kind of tasks. However, practitioners need to be made aware that they have to stick to a comprehensive and orchestrated strategy throughout the whole merger process - and well beyond - in order to become successful M&A managers. To be successful, the human integration must receive enough management attention, be led by skilled people and prove a very high coordination and communication effort. Only if the integration of culture and knowledge are designed and applied in a holistic and integrative way, both the acquiring and the acquired company can ensure the appropriate management of the people-related concerns over the entire integration duration. The future academic work should focus their studies on two main areas: a) why mergers and acquisitions are still lacking leadership and proficient integration managers, and b) how to better integrate the various disciplines that study M&A activities in order to bridge the economic and humanrelated approaches and develop better methodologies that help prevent mismanagement of M&A tasks.

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