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Merge Ahead: A Research Agenda to Increase Merger and Acquisition Success

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Abstract Scholars have been conducting serious research on the human, organizational, and cultural aspects of mergers and acquisitions (M&A) for 30 years. Yet, over this period, there have only been modest improvements in the M&A success rate. In this article, we examine corporate combinations, describe how human factors contribute to their failure or success, and identify key research questions whose answers can help to improve the M&A success rate in both financial and human terms. We propose research questions for the key phases of a deal, including buying a company and putting companies together. And, reflecting an emerging trend among some frequent acquirers to build an internal competence in M&A execution, we also propose research questions for how to accelerate the process of learning from past combinations to better manage future ones.

Keywords Merger · Acquisition · Combination · Integration · M&A · Transition · Culture clash · Transition teams · Cross-border

Scholars have been conducting serious research on the human, organizational, and cultural aspects of mergers and acquisitions (M&A) for 30 years.[1] Yet, over this period, there have only been modest improvements in the M&A success rate (Schoenberg 2006). In this article, we examine corporate combinations, describe how human factors contribute to their failure or success, and identify key research questions whose answers can help to improve the M&A success rate in both financial and human terms. We use our experience as both researchers and advisors in over 100 combinations—as well as our awareness of the scholarly literature and the work of other practitioners—to highlight the factors which matter most in eventual M&A success.

Mergers and Acquisitions

Many motives prompt executives to acquire or merge with another organization. In some cases, a combination helps a firm move quickly into a new market or product space or pursue a strategy that would otherwise be too costly, risky, or technologically advanced to achieve on its own. Other times, deals are opportunistic, such as when a troubled competitor seeks a savior or when a bidding war ensues after a firm is "put into play." Still other times, acquisitions or mergers can be defensive moves to protect market share in a declining or consolidating industry. The overarching reason for combining with another organization is that the union will enable a firm to attain strategic goals more quickly and inexpensively than acting on its own (Haspeslagh and Jamison 1991).

Despite their popularity, most mergers and acquisitions are financial failures and produce undesirable consequences for the people and companies involved. While

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[1] While the terms "merger" and "acquisition" tend to be used interchangeably by both practitioners and scholars, here merger is intended to mean the integration of two relatively equal entities into a new organization and acquisition is intended to mean the takeover of a target organization by a lead entity. The word "combination" is used here in reference to either a merger or an acquisition.

target-firm shareholders generally enjoy positive short-term returns, investors in bidding firms frequently experience share price underperformance in the months following acquisition, with negligible long-term gains (Agrawal and Jaffe 2000). The most recent research shows that 83% of all deals fail to deliver shareholder value and 53% actually destroyed value (cf., Cartwright and McCarthy 2005; Harding and Rouse 2007). In addition, M&A can exact a heavy toll on employees (DeMeuse and Marks 2003; Mische 2001). A longitudinal study of 10,000 U. S. employees representing 4,000 organizations found those from organizations that had been engaged in M&A reported significantly less favorable results than those who had not been involved. This held true for every industry group and every facet of working life measured (Wiley and Moechnig 2005).

Many factors account for the dismal M&A track record, including paying the wrong price, buying the wrong company, or making the deal at the wrong time. Our own 30 year research program finds that the *processes* used to put companies together are integral to a deal's success versus failure (Marks and Mirvis 2010). This encompasses the formation and operations of the buying team (Mirvis and Marks 1992), how the firms are integrated (Marks and Mirvis 2000), and learning from current deals to better manage future ones (Marks and Mirvis 2001).

Buying a Company

Buying a company encompasses strategizing, scouting, assessing and selecting a partner, deal making, and preparing for the eventual combination. The typical approach involves a "tunnel vision" on the financial aspects of the deal. Buyers concentrate on what a target is worth, what price premium, if any, to pay, and how to structure the transaction. The successful approach, by comparison, also emphasizes finance but adds careful attention to how a combination advances the business strategy of a firm, due diligence on behavioral and culture factors that might complicate the combination, and a clear picture of how the firms will be integrated.

Research Questions on Buying a Business

A review of relevant literature as well as practical experience suggests some key areas for future M&A research on the workings of buy teams:

M&A Motives

To what extent are M&A "buy" decisions motivated by strategic intent (e.g., market power, efficiency, asset redeployment, market discipline) versus manager's self-interest (e.g., hubris, empire building, survival, personal financial gains)? This question applies to the overall make-versus-buy decision, the selection of a partner, and the price paid. Obviously, corporate pronouncements and executive talking points express the business case behind any deal. Yet a blue-ribbon panel of financial experts concluded that CEO ego was the primary force driving M&A in the United States (Boucher 1980). Another study found that the bigger the ego of the acquiring company's CEO the higher the premium a company is likely to pay for a target (Sirower 1997).

If the true motives behind a combination have more to do with "nonstrategic" forces—say, the desire to run the largest company in an industry or fear of being swallowed up by competitors—then value creation is unlikely because there are few benefits to be leveraged by joining forces. To get at these factors, researchers might look into the pattern of purchases by regular acquirers and to what extent it builds out a clear and coherent business strategy. Those with a clinical mindset might, as Harry Levinson (1976) has done, explore the mindsets of buying CEOs and how their ambitions and fears factor into their M&A proclivities. They might also investigate instructions given to buy teams, pressures on them to do a particular deal, and considerations given to alternative courses of action. *Research question 1a: To what extent do strategic versus non-strategic motives drive M&A buy teams and what is the relationship between those motives and the price paid, partner selected, and synergies achieved by a deal?*

Behavioral and Cultural Due Diligence

When due diligence focuses exclusively on the financial makeup of potential M&A partners, analysts overestimate revenue gains and cost savings and underestimate the resource requirements and headaches involved in integrating businesses (Lodorfos and Boateng 2006). Adding in behavioral due diligence—the process of investigating a potential partner's talent, organizational makeup and culture—enables a buyer to understand if the values of the potential partners are compatible, if the bench strength exists to replace managers who might depart, if all parties are on the same wavelength regarding synergies and what it takes to combine, and if there is enough trust and chemistry to propel the combined operation into becoming more than the sum of its parts (Gebhardt 2003; Carlton and Lineberry 2004). Behavioral due diligence pays off: one study found that successful acquirers were 40 percent more likely to conduct thorough human and cultural due diligence than unsuccessful buyers (Anslinger and Copeland 1996). *Research question 1b: How do buy teams consider behavioral versus financial due diligence in their analysis*

and to what extent does behavioral due diligence yield better M&A decisions?

Buy Team Make Up

Most members of traditional due diligence teams come from financial positions or backgrounds. They bring a financial mind-set to the study of a partner, and their judgments about synergies are informed by financial models and ratios. They do not necessarily bring an experienced eye to assessing a partner's "fit" in areas of engineering, manufacturing, or marketing. As a result, there is a tendency for "hard" criteria to drive out "soft" matters: if the numbers look good, any doubts about organizational or cultural differences tend to be scoffed at and dismissed.

We have argued that the traditional membership of due diligence teams (e.g., financial analysts and strategists) be augmented by people from technical, operational, and HR functions. More research is needed to understand how this diversity in interests and expertise influences M&A analysis and team dynamics. *Research question 1c: To what extent does functional and operational diversity in due diligence team membership contribute to better M&A decision making?*

Buy Team Decision Making

M&A underperformance is sometimes attributed to the "rush to close" the deal at the expense of attending to factors that could help or hurt its eventual success (Ashkenas and Francis 2000). Why would companies buy something when their buy team has not thoroughly "looked under the hood?" Several scholars have documented how decision making traps—anchoring in initial perceptions, escalating commitments, and cognitive overload—can lead buyers to follow faulty assumptions and multiple misjudgments (Duhaime and Schwenk 1985). Thus, we have also proposed that buy teams be schooled in decision making biases and apply decision making tools and interventions to their deliberations. What are needed are studies of how these practices, studied in the lab, can operate in the field. *Research question 1d: What decision tools and interventions improve an M&A buy team's analyses and decisions?*

Combination Forms

Organizations can link together in many forms of legal combinations, ranging from a relatively informal network to outright absorption of one entity by another. The forms of combination vary by the depth of commitment and level of investment between the organizations joining forces. A *strategic alliance* is a cooperative effort by two or more entities in pursuit of their own strategic objectives. A *joint venture* (JV) goes further, by establishing a complete and separate formal organization with its own structure, governance, workforce, procedures, policies, and culture—while the predecessor companies still exist. A *merger* usually involves the full combination of two previously separate organizations into a third (new) entity. An *acquisition* typically is the purchase of one organization for incorporation into the parent firm.

Important differences distinguish these forms. As financial investment and risk increase, so does the control held by the lead company. Along this same line, the impact on the target company or lesser partner grows, as do the requirements for integration. If, for whatever reason, a combination does not live up to expectations (or if the needs of either party change), then the formal bonds of a merger or acquisition are much more difficult to undo than are the relatively time-bound and looser ties of an alliance or JV. *Research question: Research question 1e: In what way does the form of a combination influence its eventual strategic, financial and human outcomes?*

Putting Companies Together

After the deal receives legal clearance, the real work of integrating companies commences. Three aspects of M&A practice at this point beg research attention. First is the tendency for companies to fail to fully take account of the "human side" of M&A. Senior executives, once named to top posts, can't relate to the uncertainty and insecurity experienced by employees down the line. Middle managers get caught up in their own anxiety and fail to communicate with their people. Meanwhile, HR departments are busy fire-fighting rather than moving the combination forward.

Second is the increasingly common practice of forming integration planning teams with membership from both sides of a deal. Too often, however, these teams are ill-equipped to work together. They frequently are marred by conflict, engage in horse-trading, or simply settle for low-common-denominator decisions.

Third, the clash of cultures tends to be downplayed or ignored. A survey of European managers involved in acquisitions and alliances found that technical issues were less instrumental in producing conflicts in work relationships than differences between corporate and national cultures (Marks and Mirvis 2010). A majority also reported that senior executives did not initially regard such differences as important.

Research Questions on Combining Businesses

Twenty-five years ago, we identified the symptoms of the "Merger Syndrome" as a prime cause of the individual, organizational, and cultural problems in M&A (Marks and Mirvis 1985). The Merger Syndrome is a fusion of uncertainty and the likelihood of change, both favorable and unfavorable, that produces stress and ultimately affects perceptions and judgments, interpersonal relationships, and the dynamics of the combination itself. At the organizational level, the Syndrome is manifested by increased centralization and lessened communication, leaving people in the dark about the combination and fueling rumors and insecurities. This often produces worst-case-scenario thinking that distracts employees from regular duties. All of this hampers integration, reduces productivity, and contributes to turnover of key people.

In response to these combination challenges, scholars have identified a range of interventions to counter adverse emotional reactions at the individual level (cf., Seo and Hill 2005), improve integration planning effectiveness at the group level (e.g., Bradley 2003), and ease the clash of cultures (Chatman and Cha 2003).

Psychological Preparation

One way to mollify the effects of the Merger Syndrome is a "realistic merger preview" that provides detailed information regarding the timeline of a combination, how it will affect employees, and other pertinent information. In a quasi-experimental study, researchers found that employees given a realistic preview of their merge rebounded more quickly from the negative effect in areas including job attitudes, trust toward the company, and job performance (Schweiger and DeNisi 1991). Other interventions include educating people through readings, presentations, or discussions of human factors in a combination. A more dynamic way is through merger sensitization workshops, role plays, and other experiential activities that help people develop a true feeling of what it is like to acquire or be acquired (Marks 2003). R*esearch question 2a: What kinds of interventions best prepare people to cope with the stresses of a combination?*

Combination Mindsets

Combination partners typically enter a deal with distinct mind-sets. In an acquisition, the buyer and seller usually have very different psychological perspectives on the deal. The victor-versus-vanquished outlook is also found in many mergers where one of the parties is clearly seen as the lead company. Psychological mind-sets certainly influence early dealings and can dominate the critical months of transition planning and implementation. They often carry over into the combined organization.

To the victor go the spoils. Certainly, bidding wars and hostile takeovers are exhilarating for the winners. But even in a friendly deal, there are few moments in an executive's career that equal the intensity and satisfaction of buying another company. Acquiring another organization, or assuming the role of lead party in a merger or alliance, translates into a strong air of superiority. In contrast, being acquired often is debilitating to an organization and its people. From the start, in the case of a hostile deal or one imposed by the Board, there is a sense of violation: we have interviewed executives who liken it to rape and describe their buyer as an attacker or barbarian. Even in friendly deals, acquired managers often describe themselves as being "seduced" by promises that changes will be minimal, or as being "taken advantage of" once they are forced to accommodate the new owner's demands.

Alternatively, there are mergers which look, from the get-go, to be combinations of equals, acquisitions where a smaller business is delighted to be part of a larger company, and alliances and joint ventures in which both sides equally invest. Preconditions for this *partnering mindset* include trustworthy dealings, common interests, complementary skills, and a spirit of cooperative competitiveness. *Research question 2b: How enduring is impact of the adoption and expression of winner/loser mindsets on eventual integration planning and implementation and what steps can be taken to build partnering mindsets?*

Adapting to Change

Concurrent with the development of insight into the range of human reactions to M&A has been the study of behavioral interventions to address their consequences (Jian 2007). Many aim to help people to "let go" of past affiliations and practices and move toward the new behaviors and identifications (Bridges 1991). But some address the socio-emotional aspects of adaptation. We have, for example, studied "grieving meetings" where people can mourn their losses and "bury" past associations. Others favor more cognitive approaches that have people, for instance, calculate the "plusses-and-minuses" of change. Still others emphasize acculturative interventions that bring people together quickly with counterparts from the other side. Finally, there are work-based interventions that stress the behavioral role of leaders and work groups in providing psychological support. *Research question 2c: What kinds of interventions—emotional, cognitive, acculturative, behavioral—help people to adapt to changes wrought by M&A? Is there a critical period in which interventions are more versus less effective in*

helping people prepare for and cope with the Merger Syndrome?

Transition Teaming

Like any other start-up group, transition teams go through stages of development before they get down to performing effectively. What complicates this is that these teams are populated by representatives from each company that have their own accustomed ways of analyzing issues, sorting options, and arriving at decisions. Furthermore, they have their own and their organization's interests to protect. This is a setup for conflict (Mirvis 1985). Undoubtedly, criteria used in team member selection, decisions about team leadership (e.g., single or dual-leaders? the person likely to head the function or an impartial figure?) and about team composition (e.g., equal representation from both sides? commensurate levels of skill and tenure?) influence team dynamics. *Research question 2d: What factors in transition team member selection, team composition and leadership, and team operations promote more or less effective team decisions?*

Here, too, there have been interventions proposed to facilitate transition teaming that include team building exercises, third party process facilitation, and training in conflict resolution. *Research question 2e: What kinds of interventions work best in building transition team effectiveness in M&A?*

Combating culture clash

Just as an organization cannot effectively run with multiple incompatible information systems, it cannot succeed with multiple incompatible cultures. But successful combinations do not require the partners to be "cultural clones." In fact, a moderate degree of distinction between the partners' cultures results in the most successful integrations—the parties have sufficient enough similarities to take advantage of the differences, but they are not so disparate as to be like "oil and water."

A key question, then, is what drives a culture clash toward conflict versus synergy? Social identity theory suggests that people show a positive bias towards members of their own group and tend to hold a negative view about the members of an "out-group" in order to enhance the relative standing of their own kind (Tajfel 1981; Turner 1982). The in-group bias and "us-versus-them" comparisons are likely to be greatest when there is a perceived external threat, such as that posed by a combination. A contrasting point-of-view is that cultural differences can be a source of value creation and learning. This perspective is largely based on the assumption that differences rather than similarities between combining organizations create opportunities for synergies and learning (Vermeulen and Barkema 2001). Cultural differences, it is argued, can break rigidities in acquiring firms, help them to develop richer knowledge, and foster innovation and learning. *Research Question 2e: When do cultural differences contribute to versus detract from combination success?*

A survey of CEOs who had attempted combinations found that "the major factor in failure was the underestimation of the difficulties of merging two cultures" and another study found that, while 80% of senior executives felt underprepared to deal with culture, those that did give early attention to it were more likely to realize synergies (Kelly 2006). In a field study, Schweiger and Goutet (2005) examined three levels of cultural learning during an acquisition—none, shallow, and deep—and found an interesting relationship between them and the subsequent integration of plants in an acquired firm. In the case of no learning, they found, not surprisingly, no relationship to eventual integration success or failure. By contrast, deep culture learning interventions, involving cross-company dialogue, culture clarification workshops, and the like, had a strong, positive effect on integration success. Measured results included greater cross-cultural understanding, smoother resolution of cultural differences, more communication and cooperation between combining parties, and greater commitment to the combined organization. What fascinates in this study is that shallow learning—e.g., show-and-tell presentations, official communiqués, informal Q&A, and such—did little to clarify and eliminate inaccurate cultural stereotypes or to reconcile differences between the partners. On the contrary, these had the undesirable effects of strengthening perceptions of cultural differences and reinforcing stereotypes that contributed to conflict between the organizations. *Research Question 2f: Is it better to do nothing about culture clarification than something superficial and perfunctory? What are the best approaches to deepening cross-culture learning?*

Part of a firm's cultural heritage is linked to its roots in the national culture of its home country. A review of academic studies has yielded competing points of view regarding the relationship between national culture differences and M&A performance. One set of studies finds that national cultural differences negatively impact functional integration and organizational effectiveness (Weber and Pliskin 1996). The conclusion is that national differences can compound corporate cultural differences and thus slow the pace and hamper the physical integration of firms. Other studies, however, find that differences in national cultures between parent and target firms can have a positive effect on product synergies and sales growth (Morosini et al. 1998) as well as on reducing employee resistance (Larsson and Finkelstein 1999). The rationale here is that differences rather than similarities between combining

firms create more opportunities for synergies and learning. It may be that cross-border combinations are successful, despite their complexity, because the integration challenges are more obvious, prompting leaders to pay closer attention throughout the combination process (Stahl et al. 2005). *Research question 2g: Under what conditions are national cultural differences a bane or boon to desired M&A outcomes?*

Learning to Better Manage Transitions

To make a merger or acquisition work means learning how to translate theoretical synergies into real gains, how to recognize and deal with unintended consequences, and how to adapt to events as they unfold. Some of this learning comes from trial-and-error. But effective learning requires ongoing examination of progress and problems, all within a context that supports reflection and continuous improvement. This is aided by the use of valid data and studied attention.

Study after study confirms that execution is the real culprit in M&A failures (Lodorfos and Boateng 2006; Schweiger and Goulet 2000). Successful navigation through a complex organizational transition requires a constant flow of operational and behavioral information about how the business is performing and how people are acting and feeling (Marks and Baitch 2006). This information helps managers monitor the impact of the combination and the effectiveness of the process. It also directs attention and resources to the issues that matter most in eventual success.

Proposed Research Agenda

Experience and learning matter: A study on the benefits of learning from M&A by Bain & Company shows that firms that do more than one acquisition per year generate higher average returns on them than those that do one a year (Hardy and Rovit 2004). An A. T. Kearny study of large combinations found that nearly 60% reduced shareholder value; however, 74% of those that succeeded were run by managers with deep M&A expertise (Paulter 2003). And, a McKinsey study found that committing internal financial and legal staff to M&A duties is not a differentiator of performance. Instead, the *tenure* of the team members did distinguish acquirers whose total returns to shareholders exceeded the returns of their peer group from those that did not (Palter and Srinivasan 2006).

Learning from Current Combinations to Better Manage Future Ones

We would like to see these studies conducted by consulting firms replicated with scholarly rigor and independence. And, given that a flow of upward information is needed to understand when a combination is on track toward meeting its financial and strategic objectives or when it is veering off course—and that some firms now regularly conduct employee research to track the process and progress of their combinations—it is critical to develop valid and reliable measures of M&A which can be applied consistently across combining organizations. *Research question 3a: What are the attitudinal and behavioral measures most directly linked to M&A success and how can they be measured through interviews, focus groups, surveys and other employee research methods?*

One key way in which M&A is different today from when serious research on the phenomenon began 30 years ago is the effort taken by some organizations to develop a core competency in this area. We have identified three types of approaches organizations take to enhance their awareness of and readiness for what it takes to make a deal work (Marks and Mirvis 2010): (1) periodic learning events in which managers accelerate the pace of disseminating lessons learned (Marks and Shaw 1995); (2) a focus on refining combination methods and processes (Ashkenas et al. 1998); and (3) a "stepping stone" approach by first making small acquisitions and moving up to larger ones (Kumar 2009). *Research question 3b: How does a firm effectively and efficiently transfer learning from one combination to build a core competency in M&A management to better manage future ones?*

Overcoming Transition Burn-Out

Finally, there is the matter of "transition burn-out." This is not about M&A per se but, more precisely, about the context within which many—if not most—mergers and acquisitions occur today. In many work organizations, discontinuous transitions have become a way of life: an acquisition, followed by a downsizing, a restructuring, a change in strategy, a subsequent restructuring, and then a second downsizing just in time for the organization to make another acquisition or itself be acquired. The effects of stressful events are cumulative and the costs of "ongoing change" mount (Kiefer 2005). O'Toole (1995) notes that continual discontinuous change is not a natural condition of life, and that resistance is a to-be-expected response.

People become increasingly pessimistic when they experience one disruptive event after another and literally see no end in sight for all the instability (Kiefer 2005). Pederit (2000) reports that, especially when numbed by constant and on-going change and transition, employees may be more ambivalent to change rather than outright resistant to it. *Research question 3c: Is "continuous discontinuous change" sustainable for work organizations*

and their members? Can this continue at an even more accelerated pace?

Conclusion

As a final note, the methodology of conducting research in the area of M&A also deserves attention. First, more consistency is needed in how M&A outcomes are measured. Current research spans a wide range of financial, operational, attitudinal, and behavioral measures. For example, some studies of financial outcomes examine fluctuations in share prices, others changes in cost savings or revenue generation, and still others the extent to which pre-deal financial targets were met. Second, more consistency is needed in the timing of measurements. When does the merger or acquisition "begin"—at its announcement or upon receiving regulatory and shareholder approval? And, when does it "end?" Typical academic studies use arbitrary time frames (e.g., 6 months or 1 year) or rely on serendipitous measurement opportunities (e.g., happening to have collected data before a deal or doing secondary analysis of data collected without M&A research in mind).

The methodological issues in generating reliable and useful M&A insights are substantial, but so, too, are the potential rewards for doing so. As industries consolidate and organizations increasingly become more global, more and more companies and their people will combine. The M&A success rate has not changed in the 30 years since serious research began. Perhaps the research agenda proposed here can make a difference.

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