Why so many mergers and acquisitions fail

summary of research findings

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Abstract: Over the last number of years mergers and acquisitions (M&As) as a strategic growth option has begun to take off and increasingly organisations are turning to this in-organic method to achieve a competitive advantage and greater speed of entry to new markets. But M&As suffer from high failure rates, with poor integration accounting for a third of all failures. Management has cited a lack of an adequate conceptual schemes to guide them through the acquisition integration process. Hence, the reason for the research findings presented here: developing a process model for acquisition integration success.

A pragmatic qualitative case study methodology was adopted, with document analysis and semi-structured interviews used. Data were analysed using an iterative comparative method. An internal and external validation study was also undertaken to ensure the outcomes were valid and reliable.

The research findings show the need for a complete acquisition integration process model to guide management through the integration process. The process model developed is based on the assumption that the acquisition strategy should drive the integration process. It was found that an organisation will stand a better chance of M&A success if the acquisition strategy using multiple fit factors (strategic, financial, cultural and organisational) is aligned throughout the complete integration process

Key words: cultural fit; financial fit; organisational fit; strategic fit; integration; process model.

1. Introduction: what the literature says

An organisation can grow two ways - either organically or inorganically. In the current highly competitive business landscape, organisations are under immense pressure to improve growth and performance targets. Hence, organic growth is deemed to be too-slow and can result in a loss of market position or competitive advantage due to the need for constant innovation and change. Consequently, organisations are turning to inorganic growth alternatives, and the fastest alternative especially within a short time frame is through mergers and acquisitions (M&As). Hence, this is one of the main reasons why growth by M&As

over the last number of years in Ireland has been phenomenal. There were over 115 M&As completed in Ireland in 2014, up 37% on 2013. This number is predicted to increase by over 20% in 2015.

There are numerous reasons why an organisation might want to undertake a merger or an acquisition. Some examples are as follows: to obtain synergies (Harari, 1997); to gain access to technology (Grimpe, 2007); to acquire customers and be close to them (Quah & Young, 2005); to increase the pipeline of products (Papadakis, 2007); to increase speed of entry to new markets; to extending geographical reach (Colvin, 2003); provide a substitute for R&D (Bower, 2001).

Already in the first quarter of 2015 we have seen discussion of a number of very high profile M&As in Ireland such as CRH's €6.5Bn acquisition of assets being disposed by Lafarge; S.A. and Holcim Ltd in early February, and the potential €1.4Bn acquisition of Aer Lingus by International Consolidations Airline Group (IAG).

However, not all M&As are successful, and in fact, failure is surprisingly common. Kearney (2002) management consultants found that 58% of M&As do not create positive shareholder returns, while Cartwright & Cooper (2005) found that 83% of all deals fail to deliver shareholder value, with Harding & Rovit (2007) finding that 53% of all deals actually destroyed value. Hence, when measuring failures against an organisation's ability to out-perform the stock market, or to deliver stock increases, then failure rates of between 60 and 80% are typically quoted (Tetenbaum, 1999, p.23; Marks and Mirvis, 2001, p.80; Chatterjee, 2009).

However, this failure rate phenomenon is not something new, as a recent meta-review of the empirical data from the literature carried out by Homburgs & Bucerius (2006) on M&As over the last 30 years found that there has been little change in failure rates over that time. Moreover they believe, that if history is any guide, then more than half of all acquisitions will result in failure.

Furthermore, M&A failure may occur for a wide variety of reasons which are often inter-related and difficult to distinguish (Hubbard, 1997). Some examples of why M&As may fail are as follows: a lack of long term planning (Balmer & Dinnie, 1999); diversification into unrelated areas; acquisition of a competitor; poor evaluation of hard financial and soft organisational issues that are critical to success (Epstein, 2005); failure of certain CEOs to have a clear understanding of how the acquisition can contribute to their organisations' long-term benefit (McDonald, Coultard & de Lange, 2005).

However research has shown that one third of all M&A failures are caused by poor integration (Kitching, 1974; Epstein, 2005) as most organisations assume that once the acquisition is completed then the benefits will follow automatically (Shrivastava, 1986). But this is not necessarily the case. There are numerous reasons cited for these integration failures, including diverse M&A motives complicating the integration process (Shrivastava, 1986), inadequate post-acquisition integration, a lack of planning (Gates & Very,

2003) and poor integration management (Lynch & Lind, 2002). In reality, Marks and Mirvis (2010) found that "study after study shows that execution is the real culprit".

But Howell (1970) found that no adequate conceptual scheme exists with which executives can think through and plan the acquisition process in its entirety. Hence, this is why they reverse their integration decisions so frequently and why relationships disintegrate at the integration stage. Further research carried out by Jemison & Sitkin (1986 a, b) supports this view, as they found that the M&A process is the cause of a lot of integration problems and failures. Moreover, Hunt (1987) found that only 20% of acquisitions had a detailed operational plan in place of how the integration would proceed and that subsequently a mismatch of expectations developed. In addition, he also identified that over two thirds of target organisations thought the buyer had a plan in place.

Indeed, Gates & Very (2003) found that only 45% of organisations used a formal process for tracking and reporting activities, whilst 42% had a partial process and 13% had no process or plan at all. Papadakis (2007) found that 60% of organisations had no specific plan before the merger and that 38% had no specific plan even after the merger. Hence, more than thirty years on, it would still appear that organisations have not learned from the high integration failure rates as they still do not adequately plan the M&A process.

One of the main reasons for this lack of precise control of the integration process could be that acquirers spend a lot of time and money analysing and negotiating with targets, but tend to neglect the integration planning and control element (Gates & Very, 2003). Hence, there is a need for a process model to guide management through the complex integration process.

Greenwood, Hinges & Brown (1994) and Schweiger & Goulet (2000) found this to be the case and called for the gap between pre- and post-acquisition integration to be bridged. While, Kim (1998) and Handler (2006) suggested that a uni-dimensional or holistic process is adopted for the complete integration process instead of the existing fragmented approach. Further support is provided by Marks & Mirvis (2010) who found from their 30-year research programme that the processes used to put companies together is integral to a deal's success versus failure, while Teerikangas, Very & Pisano (2011) believe that securing the acquisitions success starts from the moment the two sides meet.

Hence the reason as to why I carried out the research described in this article, the aim of which was to develop a complete acquisition integration process model to increase the chances of integration success. The following section will discuss the research design used in the field study.

2. Research design, methodology and data collection approaches

The preceding literature established that the complete approach that organisations take in assessing and carrying out M&A integrations is not fully understood as most studies (Shrallow

(1985); Birkinshaw, Bresman & Hakanson (2000); Perry & Herd (2004); Cording, Christmann & King (2008); Lemieux & Banks (2007)) only focused on a specific aspect. Whereas, what is required, is an assessment of the complete pre-and post-acquisition integration process that will lead to the development of a holistic model to guide organisations through this process.

In response to developing a solution to this research gap I adopted a qualitative, pragmatic case study research design approach so as to facilitate the development of a complete acquisition integration process model.

The research design approach chosen was found to be the most appropriate, due to the exploratory nature of the study and assessing 'how' acquiring organisations go about the complex integration process in a real world setting.

Firstly, a qualitative approach to the research was deemed to be essential, as it provided a "strong handle on what 'real life' was like" (Miles and Huberman, 1994, p.10). Furthermore, it afforded a "strong potential for revealing complexity" (ibid) and it gave a "richness and holism" (ibid) to the data.

Secondly, a pragmatic qualitative research position was adopted, the aim of which was to link "theory and practice" (Savin-Baden & Major, 2013, p60) as "pragmatist researchers focus on the 'what' and 'how' of the research problem" (Creswell, 2003, p.11). Hence, with the exploratory nature of the research, pragmatism was particularly suited to undertaking this empirical work as it would ground the study in real-life situations, so as to build a theory which reflects acquiring organisations integration activities.

In addition to the above, a case study method was employed as it was found that "case studies are the preferred strategy when "how" or "why" questions are posed" (Yin, 1994, p.1). Therefore by adopting a case study approach, this facilitated the "empirical inquiry that investigates a contemporary phenomenon, with-in its real-life context" (Yin, 1994, p.13). Moreover, case studies provide for the depth of investigation that is required, as they are thorough and use multiple sources (Savin-Baden & Major, 2013).

Fourteen organisations were selected using a small number of theoretical sampling criteria. These fourteen organisations were approached with a view to participating in the study and agreement was reached with four of them. One organisation subsequently pulled out due to legal reasons, but another organisation was found (using the same sampling criteria). The four case organisations consisted of a pharmaceutical, IT, media, and financial organisation.

A number of data collection methods were applicable to this study. These included observation, participation, document analysis and interviews. But, in order to provide additional support and validation to the research findings it was deemed necessary to undertake data collection triangulation (i.e. using two or more methods). Consequently, multiple data sources were used so as to provide for a holistic description of the issues and processes (Hakim, 1987).

However, not all of these methods were appropriate, due in part to the confidential nature of acquisition process. Consequently, observation and focus groups were deemed inappropriate. This left interviews and documents.

Access was granted by all four case organisations to their full integration documentation and a complete analysis of these documents was undertaken. This consisted of analysis of due diligence documentation, strategies, work flow processes, Gantt charts, risk maps, monitoring and implementation reports, etc..

In addition, sixteen interviews were conducted with an average of four interviews in each organisation. These interviewees were made up of the senior executive team of each case organisation (these interviews were firstly piloted with three organisations). Additionally, a theoretical process model was developed from the literature and the senior executives were asked at the end of the interview process to comment on its practicality. Both documents and interview approaches provided rich, deep data.

Subsequently these data were analysed using the constant comparative approach as this was found to be a more rigorous and scientific approach (Glaser and Strauss, 1967) that included more detailed planning. Also, it facilitated an iterative process that would ensure better accuracy of the results, through the use in-case and cross-case comparisons of data. This also ensured that the process model was grounded in the real-world experiences of the participants. For a roadmap of the actual data collection and analysis processes undertaken in this study see Figure 1 below.

Upon completion of the data analysis and the development of the final process model, an internal validation study was undertaken with the sixteen participants. In addition to this an external validation study was undertaken with eight senior executives who had carried out a number of acquisitions in the past, but who were not associated or involved with the field studies. This was to ensure that the complete process model which was developed was both valid and reliable.

3. Research findings

The findings of the research do support the literature when it comes to the lack of a process model. It was found that organisations are not familiar with the integration process and started planning integration at different stages throughout the life cycle of the acquisition (50% of the case organisations in the post-acquisition stage). But all organisations did agree that they should have started planning the integration process from the outset. Hence, the moment an organisation contemplates carrying out an acquisition, it should start planning for the integration process.

In addition, the research clearly highlighted that each acquisition is unique and that no two acquisitions, or indeed integration processes, are the same. This goes some of the way to explaining why organisations are unfamiliar with the integration process. But through the cross-case analysis, and an external validation study, it was established that each process or stage that an acquisition has to go through is very similar and that the uniqueness of each acquisition has a very important role to play in each phase/stage and the subsequent integration process.

Furthermore, the findings from the literature and field research show that the integration process stands a better chance of success if the acquisition strategic intent is aligned throughout the integration process (Birkenshaw, Bresman & Hakanson, (2000); Bower, (2001); Gadiesh et. al., (2003); Epstein, (2004)). From an integration (and indeed process model) perspective, this is achieved by matching/aligning the strategic, financial, organisational and cultural fit characteristics throughout, as *fit* is determined to influence post-acquisition performance through its effect on the firm's ability to integrate previously separate firms (Jemison & Sitkin, 1986b).

In developing the process model by using the iterative process with the four case organisations it was found that *multiple fit factors* have a crucial role to play in integration strategy decisions and implementation (Lajoux, 1998). Strategic and financial fit offer synergistic benefits, as organisations can operate more efficiently and effectively after an acquisition, and that these synergies are realised through organisational and cultural tasks post-acquisition (Harwood, 2001).

Stages / Phases of data collection and data analysis	**Roadmap of actual data collection and analysis processes undertaken in study** *(Note: Slight modifications from DBA thesis, so as to clarify some aspects, as this figure was used in conjunction with another to explain the research design roadmap)*	**Issues encountered during these stages.**
Data collection (Fieldwork method 1) Note: Gathering of field data and generating transcripts from data.	**Case studies** **In-case Organisation A** → **5 Semi-structured Interviews & Documents (transcripts)** **In-case Organisation B** → **4 Semi-structured Interviews & Documents (transcripts)** **In-case Organisation C** → **Documents & 4 Semi-structured Interviews (transcripts)** **In-case Organisation D** → **3 Semi-structured Interviews & Documents (transcripts)**	The literature was synthesised and a complete theoretical process model was developed. Questions were devised to test 'how' organisations go about the complete integration process and then questions were asked about the theoretical process model. The questions and the theoretical process model were piloted with 3 organisations and slight modifications made. These modified questions were subsequently used.
Data analysis 1 **1st Phase.** *Deconstructed the field data into broad general themes (i.e. 55 nodes) using constant comparative analysis.* **2nd Phase.** *Re-ordered the broad general themes into categories of themes.* **3rd Phase.** *Broke down the new re-ordered themes into sub-themes within their categories.* **4th Phase.** *Reduced the data and wrote up In-case summary statements.* **5th Phase.** *Further data reduction & consolidation of codes Summary statements; best practice literature & Cross-case analysis*	**Manual Coding** **Open coding** / **Open coding** / **Open coding** / **Open coding** **Categorisation of codes** **Data reduction / Coding-on** **In-Case analysis** **(Summary statement tables)** **Cross-case analysis** **(Compared against conceptual process model and literature)**	Manually coded all of In-case org. B transcripts. Upon completion a decision was made to switch to a computerised package as it was proving to be too unwieldy and cumbersome to manage the manual process due to the large amount of data. Hence switched to a computer assisted qualitative data analysis software package called Nvivo (Version 10). This provided an audit trail and showed all the processes and stages of coding. Each stage and process was tracked and therefore a rigorous approach to data analysis was demonstrated. Note: Compared Nvivo In-case analysis tables with conceptual process model to develop the process model that was used in subsequent data analysis phases
6th Phase. *Developed overall interim process model based on best practice.*	**Developed Interim acquisition integration process model**	An interim process model was developed from the outcomes of the Cross-case analysis and the incorporation of best practice literature.
Data collection (Fieldwork method 2). *Piloted and carried out Semi-structured interviews with In-case organisations.*	**Carried out semi-structured interviews with In-case organisations to verify interim process model appropriateness**	Semi-structured interview questions were developed around the overall interim process model to test and verify its accuracy and offer the opportunity for suggested changes. These were piloted firstly.
Data Analysis 2 **7th Phase.** *Analysed semi-structured interview clarifications (Constant comparative).*	**Transcripts 2** → **Comparative analysis 2**	Minor interim process model clarifications were suggested in relation to criteria used in stages. These clarifications were transcribed and analysed.
8th Phase. *Modified model based on constant comparative analysis* **9th Phase.** *Carried out internal & external validation studies. Tweaked final model.*	**Final complete acquisition integration process model**	Based on the outcomes of the above analysis, the complete acquisition integration process model was finalised. Iterative process; hence the model is both valid and reliable.

Fig. 1 Roadmap of the actual data collection and analysis processes undertaken in this study

But the reality of the research shows that each organisation firmly believes that some fit factors are more important than others. It was found at the early analysis phase that organisations believe strategic and financial fit to be critical and the executive team will not go ahead with the deal if these are not present. Hence they tend to focus only on these aspects in the early stages. But subsequently, in the post-acquisition integration phase, it is cultural and organisational fit that cause the most problems. Consequently, each organisation is of the belief that if they were to carry out an acquisition again, that they would place a greater emphasis on analysing and planning for cultural and organisational change as both of these aspects cause the most post-acquisition problems.

The outcome of the research is that management found integration to be highly complex and that the development of a complete acquisition integration process model would be greatly welcomed to guide them through the often chaotic world of M&As. Indeed, it was found that management greatly underestimate the importance of integration (and indeed culture) to the success of the acquisition, due in part to the fact that at the early analysis stage it is all about strategy and finance, keeping the deal confidential and getting it across the line. Consequently, management believe that the integration process needs to be project managed from the outset by a specialist, as they are unfamiliar with the process. In addition, as each acquisition is unique, this uniqueness and fit factor (strategic, financial, cultural and organisational) weighting needs to be aligned throughout the complete integration process in order to increase the chances of M&A success.

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